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THE NATIONAL COMMITTEE ON U.S.-CHINA RELATIONS HOLDS ITS ANNUAL U.S. FOREIGN POLICY COLLOQUIUM, KEYNOTE ADDRESS

JUNE 8, 2011

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JAN BERRIS, VICE PRESIDENT, NATIONAL COMMITTEE ON U.S.-CHINA RELATIONS

DENG HONGBO, DEPUTY CHIEF OF MISSION, EMBASSY OF THE PEOPLE'S REPUBLIC OF CHINA TO THE UNITED STATES

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STEPHEN A. ORLINS, PRESIDENT, NATIONAL COMMITTEE ON U.S.-CHINA RELATIONS

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MILTON BRICE, VICE PRESIDENT OF FINANCE, THE HERSHEY COMPANY

MATT ECHOLS, VICE PRESIDENT OF CORPORATE AFFAIRS, THE COCA-COLA COMPANY

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[*] HILLS: Let me say welcome to all of you. I'm Carla Hills, and I have the privilege of chairing the National Committee on U.S.-China Relations.

The National Committee is celebrating its 45th year and, as you know, we sponsor programs that enhance the U.S.-China relationship and spread understanding. This is our eighth foreign policy colloquium. It's one of our largest, and it's certainly the most diverse: you as a group represent every province and the autonomous regions in China, and you come and are studying in every region of the United States, including far away Hawaii. We welcome you here. So many applied that we had to cut down the numbers and so some of your friends we just simply couldn't fit in. So I look at you and I say, you are the elite.

Let me also say that this Colloquium would not be possible without the generosity of our funders, who are here -- and our president, Steve Orlins, will have a word to say about them in just a moment.

Nor would this wonderful event be possible without the magnificent cooperation of the Elliott School of International Affairs represented here tonight by Associate Dean Shaw, who will say a few words in a minute. And also the Business School. Dean Guthrie could not be with us tonight, but we at the National Committee are very proud of the fact that he is a Chinese specialist **and** that he started out early on in his career at the National Committee.

Let me say, finally, that I am very, very pleased that Minister Deng Hongbo could be with us tonight. Minister Deng became the chief of mission and minister at the Chinese embassy in October of last year. He is a true foreign policy specialist.

He graduated from the Beijing Foreign Studies University. He has served as China's ambassador to Kenya. He has served as the permanent representative at the United Nations Habitat and at the Environmental Development Organization, and he also has a long, long list of important assignments from the Ministry of Foreign Affairs in China dealing with the bilateral relationship. So without taking more of his time, let me just call to the podium Minister Deng.

(APPLAUSE)

DENG: Thank you, Ambassador Hills. Thank you very much. Thank you very much for the kind words and warm introduction. It's wonderful to be here to join all of you. I'm particularly delighted to see so many Chinese students gathered here.

I would like to first of all convey warm greetings and best regards from his Excellency Ambassador Zhang Yesui, ambassador of China to the United States.

It is indeed a great pleasure to see all of you. I think you all will have a wonderful time enjoying this study tour.

I would also like to take this opportunity to pay tribute to the National Committee on U.S.-China Relations for their relentless efforts over the years in promoting the mutual understanding and friendship and friendly exchanges between the Chinese and American peoples, including the younger generations of our two countries.

I think this eighth annual U.S. Foreign Policy Colloquium is a strong testimony to that effort. It gives a good opportunity for the Chinese students to enrich their knowledge and comprehension of U.S. foreign policy, but also a good opportunity to get to know more about this country and its great people. And perhaps, more significantly, it gives them a good opportunity to think seriously about their future role and position in making their contributions to this relationship.

So I would like to congratulate you on this very fantastic program and wish you every success.

Right now, China-U.S. relations are enjoying a pretty good momentum. I think it is indeed a great momentum driven heavily by the two governments but also by the efforts of our two peoples.

We have a saying in China that amity among peoples is the anchor for state-to-state relations. I think the future of China-U.S. relations hinges upon the support and active involvement of all peoples from all walks of life, including the young people -- young men and women, like you from both of our two countries.

So I really hope that throughout this program you will not only have the knowledge about U.S. foreign policy and better understanding of this country, but also a better sense of how to make contributions to this relationship, and more broadly to enhance understanding, connection, and friendship between our two great peoples and two countries.

So, once again, congratulate on this program, and wish you every success. Thank you very much.

(APPLAUSE)

SHAW: Good evening, and welcome. I'm Doug Shaw. I am an associate dean here at the Elliott School of International Affairs and it is my extraordinary pleasure to welcome you to our school and to thank Ambassador Hills, and Minister Deng and all of you for being part of this important program.

We have been in an extended relationship with the National Committee on U.S.-China relations and particularly in hosting these events, the U.S. foreign policy colloquia. It has been a profitable relationship on an extremely important topic in a relationship that's pivotal not only for both our countries but also for us institutionally here, more parochially, as a school.

I'm especially grateful to Jan Berris for her extraordinary work in making these events happen.

I am pleased to welcome you here to the Elliott School, the largest school of international affairs in the United States, where we are focused on a three-part mission of research to uncover new responses to global human challenges, of teaching a next generation of leaders to face those challenges, and of policy engagement, activities like this that bring the academy into contact with real world problems and real world solutions.

Thank you for being here.

(APPLAUSE)

ORLINS: (SPEAKING IN CHINESE)

(LAUGHTER)

So I'll just use this time to thank our funders very, very briefly. Without our funders this doesn't happen. So the role of our funders is absolutely critical. And throughout this program you really should understand what corporate philanthropy is all about; that these funders choose to support a program like this because they believe in constructive U.S.-China relations and they believe in what the National Committee on U.S.-China Relations does and what this program is all about.

We are about to hear from them, so I won't take much time. But they are Yancy Molnar from the ACE Group, Milton Brice from the Hershey Company, and Matt Echols from the Coca-Cola Company.

And then in addition, we have a funder who comes from China, Linda Wong, who is the chairman of the Yihai Group. Philanthropy is only just beginning in China and I think this is a very special time that her foundation in the United States has chosen to support this program, and we deeply thank you Linda, and the other funders for this, and welcome you to say a few words.

Thank you.

(APPLAUSE)

WONG (THROUGH TRANSLATOR): Thanks, Mr. Orlins, for the introduction.

TRANSLATOR: She will speak in Chinese; I will translate.

WONG (THROUGH TRANSLATOR): Chairman Hills, Minister Deng Hongbo, President Orlins, ladies and gentlemen, good evening. First, I thank the organizer for giving us this opportunity to speak here. As a Chinese private entrepreneur, I'm very glad to meet everyone here at this high level colloquium.

I would like to share my experience regarding investment in Yihai education during the past 22 years, and how education is the core competitive place of the enterprise, the development of Chinese education and Chinese-American education communication. Yihai is committed to building first-class schools and providing first-class education facilities. Over the past 14 years, the success of Yihai education has made Yihai a well-known brand in China. We always collaborate with the best education brands in China such as the Ace Middle School of Beijing, the Second Experiment Primary School of Beijing, and Yali Middle School in Changsha. The graduates of Yihai High School have a 100 percent acceptance rate by universities, and over 89 percent of its graduates enter first- class universities.

Education is the core competitiveness of our enterprise and we work hard to apply this idea to the whole enterprise. Yihai has been made efforts to create a (inaudible) education concept: that is to implement education to all students as well as all residents through schools and the communities. We insert an education concept into every state development, property management, health care, and Yihai's other projects.

Yihai education is the bridge of Chinese-American education communication and an important driving force to facilitate Yihai's consistent development. Over the past decade, Yihai has trained many outstanding national and international talents. Many of them came to the United States for further study. In the meantime, Yihai's international schools are also open to all students worldwide.

Yihai education is the driving force of Yihai's sustainable development.

I welcome every student leader here to join Yihai and to work with us together to facilitate Chinese-American education development. And I wish this conference successful. Thank you.

(APPLAUSE)

MOLNAR: Thank you very much. I'll be very brief as I will see some of you tomorrow and will expand on those comments.

But Ambassador Hills and Minister Deng, Dean Shaw, and Mr. Steve Orlins, and Ms. Wang, thank you.

On behalf of Evan Greenberg, chairman and CEO of ACE limited, welcome. This program fits right into Evan's strong belief in building a better understanding between the United States and China.

Just as quick background, ACE is an insurance company, a property, casualty and life insurance company, that actually began its business in 1897 in China when its predecessor company, INA, was the first U.S. insurance company to conduct business in China.

Our more recent history in China dates back almost 10 years now to 2002 when we started a strategic relationship with a company called Huatai -- which, hopefully, all of you have heard of and, hopefully, most of your families have Huatai insurance, either auto insurance... and if not, you will in the future.

(LAUGHTER)

As I mentioned, and Steve mentioned philanthropy, we actually view this as an investment. As I said, our chairman and CEO believes this is the most critical relationship in the 21st century, the U.S.-China relationship. And we are going to face many issues in the future, in the 21st century, and it will be you and your generation that will be facing those challenges.

So we very much believe that a program like this that increases the understanding of the U.S. foreign policy process is critical, not just for today, but for tomorrow when you will be the leaders of companies, of government, and of academia. So we very much support this program and we look forward to participating with you tomorrow.

(APPLAUSE)

BRICE: Ambassador Hills, Minister Deng, Dean Shaw, ladies and gentlemen, on behalf of the Hershey Company it is a real honor to be a co-sponsor of this event.

International growth, especially in the fast-growing markets of Asia and Latin America, are a strategic priority for the company. We have been in China for five years now and in the past two years our sales have been increasing at over 50 percent per year. So China is a central plank of our future investment plans.

As you may know, Milton S. Hershey, the founder of the Hershey Company, established a school for underprivileged children about 100 years ago in Hershey, Pennsylvania. He subsequently donated his shares and the holdings of the Hershey Company to a trust that continues to this day to operate the school.

The school pays for the educational expenses and living expenses of almost 2,000 children. So as you can see, the company has a very strong legacy of supporting educational endeavors. And that is why we feel so privileged to be a part of this colloquium.

Again, on behalf of the Hershey Company, welcome, and I hope I have a chance to meet several of you later today. Thank you.

(APPLAUSE)

ECHOLS: Good evening. I'm Matt Echols. I work for The Coca-Cola Company. I head our Washington, D.C., office here in town. I bring greetings on behalf of Muhtar Kent, our chairman and CEO.

Ambassador Hills, Minister Deng, Mr. Bader, Mr. Orlins, the Chinese students, and other distinguished guests, our company has a special relationship here, we feel. In fact, under my colleague Janet Howard's leadership, our company co-founded this foreign policy colloquium in 2003, and we are happy to continue to provide this financial support to this key program today. It is very important to us.

We're pleased to see such a large group of students this year, and we wish you a most memorable and wonderful three days in Washington, D.C. during your visit here.

Our company has a long partnership with both the George Washington University and the National Committee on U.S.-China Relations. Our membership in the National Committee goes back to the early '70s, and today our chairman, Mr. Kent, serves on the Committee's board of directors.

Coca-Cola also has a long history and heritage in China since our first entry into China in 1927. Indeed, in 1948 Shanghai was the first city market outside of the United States to sell over 1 million cases of Coca-Cola. So that's pretty close -- near and dear to our heart.

With the opening in 1979, our company's business has continued to grow in China, and now this is our third largest market in the world for all of our beverage brands.

We operate as a local business. We employ more than 40,000 people in the country directly, and we're creating another 400,000 job opportunities sort of along our value chain and supply chain system.

Again, on behalf of The Coca-Cola Company, I want to extend a personal thank you to each student participating in this wonderful program, and again we wish you a wonderful three days in Washington.

Thank you.

(APPLAUSE)

HILLS: Well, I'm delighted that you all got to meet our fabulous funders, and let me add my warmest thanks to each of you for supporting this terrific program.

And now it's my privilege to introduce and to welcome Dr. Jeffrey A. Bader who will give the keynote address this evening on how Asia policy is formed.

Dr. Bader is extremely well qualified to speak to this topic, having served until last month in President Obama's administration as senior director for East Asia Affairs and in the Clinton administration as director for Asian Affairs. He's had many, many government positions at high levels, including deputy assistant secretary of state for East Asia at our State Department, as assistant U.S. trade representative here in Washington where he was responsible for negotiating in East Asia, and was critical in negotiating the accession of China and Taiwan to the World Trade Organization. He is currently a visiting scholar at the John L. Thornton China Center at The Brookings Institution where he was, prior to entering government service, the center's first director.

And besides all that, he's just a terrific guy to work with.

Jeff, let me welcome you to the podium.

(APPLAUSE)

BADER: Thank you so much, Carla.

Ambassador Hills, Mr. Deng, Steve Orlins, my dear friend Janet Howard, my dear friend Stuart Bloch and Ambassador Julie Chang Bloch, and above all the Chinese students who are here tonight.

You know, when I served in China from 1981 to 1983, I was asked by my university, Yale, to interview a few students who were applying to Yale. At the time, there was just a trickle, just a handful, of Chinese students coming to the United States. I interviewed five or six students, of whom, I think, most of them got in. I hope most of them made it there.

(LAUGHTER)

I have been serving government for 30 years and have long felt that the real strength of the U.S.-China relationship lies in people-to-people programs, business relationships, or university exchanges -- people like you.

We in government not infrequently mess up the relationship and it is the ballast provided by the people-to-people elements in the relationship that keep it strong and will ultimately determine the future of the relationship, more than a handful of people in government will.

I'm going to talk tonight more about the foreign-policy-making process than I am about foreign policy. I'll say something about the policy of the Obama administration toward China and Asia. I've looked at your program for the next few days, and I see you're going to be talking to a lot of policy people. I was trying to think of what I could tell you that they might not. And I think what I can tell you is mostly about how decisions are made, how they are made in this administration, how the White House works, how the interagency process works. When we get to questions and answers, I will be happy to answer questions about policy if you find that more interesting than process. But for those of us who are in government, process is endlessly fascinating.

The first point I'd make is that in policy towards Asia and China, there is much more continuity and much more bipartisanship than people think.

The Obama administration came into office not aiming to turn China policy upside down -- on the contrary. We had previous experiences in presidential transitions in 1980, in 1992, and in 2000, where presidents came into office having run campaigns in which they were critical of the China policy of their predecessor and made pledges to change that. In each instance, within a year or a year-and-one-half, the incoming president realized that the previous president knew what he was doing. And with some difficulty and some embarrassment we would work our way back to the policy of the previous administration.

We were determined not to go through that same process, so we were not critical of the Bush administration's approach on China. We think that generally the George W. Bush administration did a good job on China policy. We were critical of Bush policy elsewhere in the world, but not generally in China. So in our first year, we looked to put a solid floor onto the relationship. The president called President Hu Jintao immediately after his election. He called him immediately after his inauguration. He called him many times in 2009. He decided to meet President Hu for the first time early in the administration in London, at the Group of 20 meeting in April. He decided to visit China in the first year of his presidency, which has been done but is not common.

We set up the U.S.-China Strategic and Economic Dialogue within the first couple of months. That's a unique mechanism that we have with no other country in the world. The dialogue groups, on the U.S. side,

the secretary of state and secretary of treasury, and on the Chinese side, State Councilor Dai Bingguo and Vice Premier Wang Qishan, and brings in people from about 20 agencies on each side for a two-day meeting.

President Obama greeted this meeting in June and gave a speech in which he said he welcomed the rise of China, and welcomes a strong, successful, and prosperous China. This was not mere rhetoric for public consumption on the president's part.

Whenever the president privately met with heads of state and government throughout the region and the subject of China came up, as it did not infrequently, sometimes with some anxiety on the part of the president's interlocutors about developments, the president consistently said that he welcomed the rise of China. He thought that this was positive for the region, for the world, and for the United States. We expected that rise to occur in ways consistent with international norms and international law, but he was unambiguous in his welcoming of the phenomenon.

The administration also wanted to strengthen relations with our allies and partners in the region. We did a fair amount with Japan, with the Republic of Korea, and with countries of Southeast Asia because we felt that Asia had been somewhat neglected in the Bush administration, understandably given the focus on Iraq and the war on terror -- there's only so much bandwidth that the administration can have -- and we wanted to make up that gap by paying attention to these relationships.

Let me talk now about our process a little bit. If I get too obscure, just wave your hands and say, "I don't understand what you're talking about."

Our foreign policy process and our foreign policy decisions are mostly driven by what is called the deputies committee. The deputies committee is chaired by the deputy national security adviser who sits in the smallest room of the West Wing of the White House. It's the size of a closet. The ratio of power to square feet of that office is probably the highest of any office in the world.

For the first year-and-one-half years of the administration it was chaired by Tom Donilon, who will be known to many of the Chinese students in the room. He visited China last September. The key participants in the deputies committee are from the State Department, Jim Steinberg, the deputy secretary of state who has been a frequent visitor to China, the undersecretary of defense, Michele Flournoy, the vice chairman of the Joint Chiefs of Staff, General Cartwright, and undersecretary for treasury, the deputy secretary of energy, a representative of the Office of the Vice President, the number two person, the deputy director of national intelligence, and sometimes the deputy secretary of commerce, depending on the subject.

As I say, this is the principal mechanism by which policy decisions were coordinated in the Obama administration. The deputies committee meets in the Situation Room in the White House on the ground floor. It's a secure room that has screens where we can have secure participation by people from elsewhere in the world.

A typical meeting would be an hour and a half. The agenda for the meeting would be drawn up by the regional director in the National Security Council that was responsible for the subject. So if the subject, let's say, was Korea, my office would prepare an agenda of what would be discussed at the meeting. These meetings tended to occur around crises, potential crises, and near crises. They were not used to coordinate routine daily matters.

In my part of the world, by orders of magnitude, the largest number of deputies committee meetings we held was on Korea because the North Koreans provided us with a more or less nonstop series of reasons to meet: from missile tests to nuclear tests, to the sinking of ships or shelling of islands, to threatening speeches. In my two years there, we had scores of deputies committee meetings on Korea.

We also had a number of deputies committee meetings on China, though not as many as one might expect. This was in part because many of the China issues that arose were not on the national security side. Many of them were on the economic side, and there is a slightly different mechanism for coordinating economic issues. If you add up the economic and the security meetings, of course, you get a much higher number.

Aside from the deputies committee meetings held for those two regions, there were very few. I recall there being only one in two years on Burma, Myanmar. I think in the Bush administration there were many of them, though I don't know that they did any better with their 30 deputies committee meetings than we did with our one on Burma.

There was generally one meeting before every trip that the president took to Asia. There was one on regional institutional building in Asia. When we met, the regional director would draw up an agenda, and I would call around to each office and say, "Here's what I'd like you to talk about." I would speak with people in each office and explain what would be most useful.

But these meetings are very, very unscripted. They are very spontaneous. If anyone ever came into a meeting reading from notes, which I had seen sometimes in past administrations, they would be laughed out of the room. Participants would often come with large books prepared by their agencies, but, more often than not, they would not look at the books, or might just glance at them.

So these were very free and far-ranging discussions. At the end of the meeting, the regional director -- in this case, me or my office -- would be expected to draw up a summary of conclusions of what had been decided in the meeting. It's often hard to tell what was decided in a meeting, as the conversation goes all over the place, but if the person chairing the meeting is experienced, they will interject two minutes before the end of the meeting to say, "Break, break. Stop. Here's what I believe we have decided today." They then will dictate a number of points, and we circulate those conclusions to all agencies so they also know what was decided.

Above the deputies committee there is a principals committee, composed of cabinet members. These would be people like Secretary Clinton, Secretary Gates, and so on. Above that there's something called the National Security Council meeting, which the president chairs and the cabinet members attend.

I recall a National Security Council meeting, which the president chaired -- I won't elaborate, but let's say it was not an outstanding meeting. The contributors were all over the place. And at the end of the meeting I remember thinking, "What on Earth are we going to get out of this meeting?" The president was fairly quiet most of the time, just kind of watching. At the end of the meeting he said, "OK. Here's what I've heard today. Here's what I think we took out of this." And he had no notes, but he went one, two, three, four, five. He came up with five points found buried in these fairly mundane presentations that were brilliant, frankly.

I kind of watched this in awe, and from then on, within my office, when we wanted to talk about the president on the phone and we didn't want to use his name I used to refer to him as The Note-Taker.

(LAUGHTER)

But it was, well, pretty spectacular.

After deputies committee meeting, the major conclusions are briefed to Secretary Clinton, Secretary Geithner, Secretary Gates, Admiral Mullen, Chairman of the Joint Chiefs. If they have any disagreement or if there were any matters that were unresolved, there would be a principals committee meeting, where they would resolve the differences. That happens on occasion.

The conclusions that came out of that would be briefed to the president. They would go either by memorandum to the president, which our office would prepare and Mr. Donilon would send, or would be included in the presidential daily brief. The director of national intelligence comes in each morning to give him an intelligence update. The National Security Adviser is there, along with a handful of other three or four other people. The national security adviser would use that meeting to run through basically all the important foreign policy issues that had been discussed or had emerged in the last 24 hours. So there are different ways of getting the material to the president.

Not every issue required a deputies committee meeting. If there was less urgency, I would chair it and my counterparts would attend, or sometimes we would just handle it bilaterally over the phone. I would talk to the assistant secretary for East Asia or my counterparts at the Defense Department or the Joint Chiefs of Staff.

There was a lot of coordination between NSC, State, DOD and the Joint Chiefs of Staff. I would underline that for our Chinese friends trying to understand how our system works. There's intense coordination. Our Joint Chiefs of Staff and our Defense Department did not do things that I did not know about. They would call me regularly when they had some planned exercise or some planned activity with potential political implications.

Let me close with four brief examples of large decisions and how they were handled from a process point of view.

The first is China economic policy. This was an issue that consumed a lot of time on the president's agenda. The president cared about it deeply. The president came into office, and within two months he had an unemployment rate of over 10 percent. In talking about China and economic policies, the first question he would always ask me whenever we would have a meeting was, "I'm looking at pretty much every issue figuring out how I'm going to recapture 8 million lost jobs. And I want your thinking on how the China economic trade and investment relationship affects jobs." That was always on his mind.

In trying to decide the course of our economic policy, we had many meetings with the president. They were generally moderated by Larry Summers, who is a fantastic moderator and who would lay out all of the options fairly and, I'd say, aggressively. Tim Geithner was usually there, or would be represented by his undersecretary. Mike Froman, the deputy to Larry Summers, would be there as well.

These would be free-ranging discussions for about an hour, talking about different options -- different options under U.S. trade law, different options under World Trade Organization, what the risks were, what the benefits were, a lot of discussion about the renminbi, and what the best approach was in trying to seek a higher value for the renminbi. In addition, there was much discussion about what position we should take with regards to congressional legislation.

I'd say this regarding the outcome -- it's an ongoing process. On economic policy so far toward China, I would say so far that the adjustments have been modest. Some major adjustments were considered and rejected. This doesn't mean that they couldn't be reconsidered, depending upon how the relationship goes.

Second, we have decisions concerning Korea -- on the U.S.-Korea Free Trade Agreement, for instance. We had a meeting chaired by the president in the Roosevelt Room with all of his key foreign policy people, his key economic people, as well as his key domestic political people, because this is a highly political issue. We all knew we needed to go ahead with it at some point, but the politics of it are very complex. So a lengthy discussion would be held involving all of those people in the room. On the trip to Korea in November of 2010, the president would regularly call the same group: Geithner, Summers, a few of the rest

of us in. As we prepared to meet with President Lee, we had three or four meetings in which we thrashed through how to proceed.

Third, we would meet with the president to plan presidential travel and form the agenda for presidential trips. Before that, however, early in the year, the West Wing of the White House would solicit opinions from the National Security Council about where the president should go in the coming year. What are the principal agenda items? What are the principal objectives that we need to push, that would be advanced by presidential travel? We would each send forward our suggestions for travel and for meetings. In my case, it was pretty easy. The priority was always China. Sometimes travel, sometimes meetings with President Hu. The meetings might be at the United Nations; they might be at the G-20; they might be at the G-8 – all different opportunities.

Then you would go through your priorities from one to ten, and they would draw a line somewhere in the West Wing. You would then meet with the West Wing, and they would talk to the schedulers and figure out when the president could travel. The president's time is the most precious commodity in Washington, so it was always a struggle to get travel. Once the trip was decided upon, we would meet with the president and talk about what he wanted to accomplish on it. We would work very closely with the West Wing of the White House on his schedule.

The last example I'd give is the decision to join the East Asia Summit. That was an interesting process case. We thought about it for a year and a half. We had an interagency policy committee that I chaired in which essentially the political agencies were on one side and the economic agencies were on the other side.

The political agencies, mainly State, wanted us to join the East Asia summit. They felt it was crucial that the United States be involved in what could be the most important political and security multilateral institutional agency in Asia. The economic agencies were more skeptical primarily because they were afraid of the impact on APEC, which involves many of the same countries, and they were afraid that this would make APEC irrelevant. The third actors in this debate were the people in the West Wing of the White House, who generally don't like the president traveling too much. They like him at home handling domestic matters, and entering the East Asia Summit requires two trips to Asia a year instead of just one.

So we argued about this for a year. Finally, I was in Toronto with the president. We had breakfast with the president of Indonesia, Yudhoyono. Earlier in the year, the prime minister of Australia, Kevin Rudd, had seen the president. Prime Minister Rudd made a very strong pitch to the president for us to join. President Yudhoyono did as well. So did our Singaporean friends.

I talked to the president after breakfast, " We were riding an escalator back from breakfast with the Indonesians, back to the conference room, and talked about it for ten minutes. He essentially decided then that he wanted to join. Afterward, Tom Donilon and Secretary Clinton weighed in heavily and the decision was made – but it was not an easy decision. It was the subject of considerable dispute and some argument.

Anyway, I think I've talked too long. Thank you for your patience in listening to this rather obscure subject. I'd be delighted to hear your questions and comments. (APPLAUSE)

(OFF-MIKE)

You know, by the way, you do not need to ask about process. You can ask anything you want, about policy, about U.S.-China relations, whatever.

A question in front here. Go ahead, please.

QUESTION: I am writing my Ph.D. dissertation on the rise of China and the new IRC (ph) at the CUNY Graduate Center. Last week the International Monetary Fund issued a report predicting that China would become the largest economy in the world in 2016, in terms of purchasing power parity.

I see you talk a lot about this detailed policy-maker inside the White House, but I'm thinking, if that actually happen, I assume, that will be under Obama's, President Obama's second term, which I hope. So do you think there will be a grand strategy change from current engagement to something else, let's say containment? And who will be the hawk and who will be the dove? Will the corporations, like the Coca-Cola, have a say during those meetings or not? Thank you.

BADER: OK, a few thoughts. First of all, many economists that I listen to do not put enormous stock in PPP calculations. When the PPP level exceeds, it's not necessarily a decisive moment. The date keeps getting moved up. I mean, I remember Goldman Sachs was talking about it by the middle of the century and now you're citing an economist talking about 2016. I suppose it's somewhere in between the two.

(LAUGHTER)

Whenever the date is, China will still have a per capita income that will be a small fraction of U.S. GDP. Right now it's about one-ninth or something of that character. That has sort of mixed impact. On the one hand, I think that that explains why Chinese leaders continue to say, "We are not ready to play a leadership role in international organizations," particularly on economic issues, "Nor will we ever seek hegemony or seek to be a dominant superpower because we have these massive internal problems to address." If your per capita income becomes one-fourth of that of the United States, there are still huge domestic problems that need to be addressed. And I think that will continue to be the orientation of China's leaders for the foreseeable future.

Containment. I cannot envision a circumstance under which a policy of containment would make sense for the United States. The policy of containment was devised by George Kennan in the late 1940s. It was a reaction to a particular historic circumstance, namely the Soviet Union, which had the following characteristics: It was imperialist. It was closed. It was reliant on a military industrial complex. It was not integrated into the global economy. It had a bloc supporting it. Containment was a concept and a mechanism that made sense in the case of the Soviet Union.

China has none of those characteristics I just described. China is profoundly integrated into the global economy. China is not an imperialist power. I'm not sure what a policy of containment would look like. In the case of the Soviet Union it involved NATO and the countries of NATO coordinating all of their political, economic and security policies to contain the Soviet Union. What would the policy of containment look like against a China which is the largest trading partner of every country on this periphery?

So I don't see that as a viable policy. I see it as both undesirable and then not viable even if someone wanted to effectuate it. There are certainly going to be frictions as China rises and as China becomes the largest global economy. I think that as China reaches that point it will be critical that China play a larger role in support of the international economic system.

At that point it would be important for China to say, "Well, okay, we still have characteristics of a developing country. We still have this massive poverty in the western provinces. But we understand that we have a profound weight on the international economy, on its health, and therefore, our behavior affects economies everywhere. So we want to be acting consistent with international standards, which we, China, will affect. We will not simply inherit them. But we want to act according to international standards on values of currency, on export credit financing, on foreign investment, on trade, on foreign assistance."

I think as China plays more and more of a role as a partner to Western countries and Japan on all those issues, this will help dissipate the frictions.

The gentleman way in the back, over there.

QUESTION: I have a question about if the rates of unemployment keep increasing in the United States, will you give more pressure on China about currency appreciation of the Chinese money? And another question – how do you balance the demands of the employment and the economic relationship with China?

BADER: You know, hard economic times and recent high unemployment are invariably fertile grounds for protectionism. That has always been the case. That was the case in the 1930s when the most protectionist legislation in American history was passed at the height of the Great Depression.

There is a strong belief in the United States that American jobs are being lost to China. It's a very complex issue. It's not nearly as simple as a lot of people believe and a lot of politicians assert. But when unemployment rates are high, as your question suggests, people will not always look for the rational explanation. They will look for a variety of ways to address it, and one of them is protectionism.

Now as for the renminbi, the value of the yuan, I think that most economists -- not just American economists, but the IMF as well -- believe that the renminbi is significantly undervalued. This is not in China's interest. By undervaluing the renminbi, one way or another China has to pay. And the way they pay is by inflation -- the inflation that China is currently experiencing is partly a result of an undervalued renminbi. As I mentioned in response to the previous question, the world is not going to accept a China as the world's largest economy if China manipulates its currency value.

Now the U.S. Treasury has never decided that China is manipulating its currency value, but China does purchase about \$20 billion a month in foreign currency to prevent its currency from achieving its market value. So there's no question that China's currency is significantly undervalued. Tim Geithner has resisted making a declaration on it because if we make a declaration, what happens next? Under our law there are just consultations between the U.S. and China, and my assumption is that in the face of a declaration that they were a manipulator, the Chinese government would be disinclined to engage in serious consultations.

So what we've been resorting to so far is jawboning, trying to persuade China to adjust its currency. From 2005 to 2008, there was a 20 percent upward movement, and then it stopped for a couple years. Now it's gone up about 5 percent or 6 percent in the last year, and it's got to continue rising.

On this issue, I don't think China can continue to cite underdevelopment as a reason for being special when, as the previous questioner suggested, it is rapidly becoming the largest economy in the world. On this, you have to play by global rules, and global rules demand currencies that are determined by market values.

The gentleman over here?

QUESTION: Thank you very much.

I have a question about U.S. policy-making process. I find that since the George W. Bush administration and the war on terror, U.S. military plays a large role in the process of foreign policy-making. And I'd like to know what's your opinion on this trend? Will the increasing role of the U.S. military pose a negative impact on future U.S.-China relations, or it will help U.S.-China to build positive and good bilateral relations?

BADER: The role of the military? Well, we've been engaged in two wars for the better part of the last decade, and one of them, the Afghanistan war, was not a war of choice. It was a war that was brought to our

soil by terrorists. The Iraq war was a war of choice, but the decisions were made in the context of the war on terror.

I think that there is a strong sentiment in the U.S. to get these wars over with. President Obama has removed all combat troops from Iraq and will be drawing down troops further. We're not going to be continuing with combat in Iraq. And with regards to the war in Afghanistan, we fully expect that next month the drawdown of U.S. combat troops in Afghanistan will begin, with the expectation that it will be ended by 2014. The Afghanistan war is costing something like \$113 billion a year. The U.S. is running gigantic fiscal deficits. Secretary Gates has been talking a lot about the need for the military as well as other departments to make significant cuts if we are to get our fiscal house in order.

There's a growing sentiment in the U.S. that this is perhaps our largest issue as a country -- how to restore fiscal health to the United States. It's a rather difficult thing to do given the state of our economy right now, but this is definitely going to be a central issue in the next presidential campaign. I've been struck that even a few of the Republican candidates -- and the Republican Party usually is very vocal about the need for U.S. global leadership and a strong military -- have been talking about the U.S. being overextended and spending too much on foreign wars.

So I guess that's the first point. I'd check back in a year or two and see where we are on these foreign engagements. President Obama certainly is not looking to expand our foreign military engagements.

As for the role of the military on policy, I hope in my process discussion I made clear that the U.S. military never, ever acts on its own, ever. They are firmly under the control of an interagency process. I spoke to three- and four-star generals pretty much every day in my job. They could not and would not do things that I didn't know about, and our deputies and principals committees and the president certainly knew everything our military was up to.

I think it's very good that the U.S. and China have restored military-to-military relations. There have been a couple of good visits. Chen Bingde was here recently. And General Ma Xiaotian was here for the strategic economic dialogue. General Chen did a very good job on his visit and made a lot of very constructive and positive statements. I saw the statements that came out of Singapore with the Shangri-La dialogue in the last few days by the Chinese defense minister, which were also impressive and positive.

So I think it's a hugely important issue. I'm glad you raised it. You know, we can't have a situation where the U.S. and China are two dominant powers in the world in the 21st century and their militaries view each other as enemies or as strangers. We've had on and off again military-to-military relations for the last decade; they have been stopped for various reasons. There are the risks of incidents on the high seas or in the air, the risks of misperceptions, misunderstandings of each other's strategic postures, on nuclear issues or missile issues. You know, since the 1970s we have had an agreement with the Soviet Union. We knew every time the Soviet Union was launching a test missile, every time -- we had a notification system.

We don't have that with China. Whenever we launch a missile or China launches a missile for test purposes, there is no formal notification. I think these are things that need to change.

The question back left?

QUESTION: Thank you, Mr. Bader.

I was wondering how the president deals with Congress which, according to the Constitution, also shares a large portion of the power when it comes to foreign policy decision making.

I'm especially interested in how the president deals with the Congress when it is controlled by a rival party. Do you have any specific cases or occasions, examples where the president runs into and sees the Congress as an obstacle that stands in his way...

(LAUGHTER)

... especially when controversial issues come up, you know, like human rights. Thank you.

BADER: A good question. The president's authority under the Constitution for foreign policy is fairly explicit. It was essentially unchallenged in the United States until the Vietnam War. It was only after the unpopularity of the Vietnam War in the 1960s that the Congress began asserting strong demands to play a co-participant role in foreign policy.

This wasn't the first time in history. If you go back to the 1930s, interestingly, the Congress made it virtually impossible for the U.S. to defend itself or to defend Great Britain. Had it not been for President Roosevelt's virtual defiance of the Congress, well -- Congress by only one vote approved the draft, approved conscription in 1940. The Congress wouldn't allow any aid to Great Britain when Great Britain was under threat of invasion in 1940, unless they paid for everything.

If you look at recent decisions, such as the decision for the U.S. to become involved in NATO in Libya, the president essentially made that decision on his own. He called in congressional leaders a few hours before, told them what he was going to do. That was that. And there's been a lot of noise from Congress. In fact, there was a resolution passed just the other day from the House condemning not the decision, but the inadequate consultations. It's not going to affect his conduct in that case.

Where the Congress matters on foreign policy enormously is on trade issues, because they have the authority under the Constitution for trade, and for appropriations, for funding, including during conflict. Now the Congress is always very reluctant to pull funding from a president during conflict even if that conflict is controversial.

Human rights? I don't know.

(LAUGHTER)

That's about a three-hour subject. The Congress makes its weight felt on human rights principally by passing legislation that forbids the U.S. government to undertake some activity -- to train military forces in Indonesia, for example, which they did back in 1999. Lots of human rights based sanctions against Burma, Myanmar.

The Congress cannot conduct a foreign policy. They can't conduct a dialogue with a foreign government on human rights. What they can do is to limit the tools that the president has to conduct foreign policy, and that is something that we in the administration had to be sensitive to. We never knew when there might be some restriction placed upon us. There was actually one a week or two before I left office. There was legislation, part of the 2,000-page budget bill, buried in there were a couple of lines that forbid the White House science adviser from expending any money to interact with China and banned the National Aeronautical Space Administration from expending any money on relations with China.

No one saw it; it was in the 2,000-page bill buried somewhere. The next thing we knew it was law. These are the kinds of things that the Congress can do. These don't drive or undermine the entire relationship but they create, I would say, headaches and irritations.

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