



CHINA Town Hall: Ray Dalio
Ray Dalio, Stephen A. Orlins (moderator)
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Transcript (unedited)

Stephen Orlins: Good evening, good afternoon, and good morning to all. I'm Steve Orlins, the President of the National Committee on U.S.-China Relations, and I'm pleased to welcome audiences from 78 partner organizations in the United States and 4 partners in China, as well as individuals from around the world to the National Committee's 14th annual CHINA Town Hall. Today's program comes at a critical time in U.S.-China Relations. With the election of a new president, both countries have the ability to improve the relationship for the benefit of both peoples. Sino-American relations has a profound impact on communities across our country. So, we hope that the issues raised during our program today will spark an educated and lively discussion at your local town hall conversations. In view of the importance of these issues to the future of America, the National Committee has adapted the format of CHINA Town Hall this year, expanding from a single night into a multi-night series of programming to address the range of issues confronting the relationship. After tonight's keynote, we will host subsequent evenings on economics and trade, climate and health, and society and culture. In addition, a fifth Mandarin language event will be held for our Chinese speaking audiences in the United States, China, and around the world. We hope you can join us for those nights as well. Information can be found on our website at ncuscr.org/cth.

As the President-Elect formulates policies towards China and the rest of the world, we need to have a full and frank discussion of where American interests lie. So we are thrilled to welcome Ray Dalio as keynote speaker at CHINA Town Hall. Ray is the founder, co-Chief Investment Officer, and co-Chairman of Bridgewater Associates, the largest hedge fund in the world. He's the author of New York Times bestseller, "Principles: Life and Work," and the upcoming, "The Changing World Order: Why Nations Succeed and Fail," which I just had the pleasure of completing and is a must-read and will be released this winter. With over 35 years of business, personal, and philanthropic engagement with China, he offers special insights into China and U.S.-China Relations. I'd like to thank our partners at all 82 venues across the United States and China, who have transitioned seamlessly in this virtual world to bring this year's CHINA Town Hall conversation to their local communities. Let me thank our speakers, a veritable who's who of U.S.-China relations. We also want to thank The Henry Luce Foundation for their support in funding CHINA Town Hall. Finally, let me thank our dedicated staff at the National Committee for putting this program together. Thanks to all who have submitted questions in advance. Throughout the webcast, we encourage you to join the conversation on social media using the #cth2020 and tagging @ncuscr. Without any further ado, I'd like to turn it over to Ray Dalio for his keynote remarks. Ray.

Ray Dalio: Well, thank you, Steve, for inviting me to share my thoughts with you and others during this most remarkable time for China, for the United States, and for our

relationship. Before describing what this time looks like to me, I would like to share with you a bit of my background, which affects my biases, maybe. My perspective is influenced by being a global macro investor for over 50 years and having a lot of contact with Chinese economy, its markets, and its senior policymakers who are responsible for the economy and the markets. In my job, I've followed all major economies over those 50 years, looking at the big drivers of their economic performances, to bet on how well these countries and their markets would do. In 1984, I was first invited to China by CITIC, which was the only window company at the time. I mean, basically, that meant that it was close to the rest of the world, and CITIC, which was formed by a capitalist, first capitalist, Deng Xiaoping appointed him. I was allowed to look at the outside world and learn from it. And so I was invited to teach them about the financial markets. That began the relationship.

Five years later, in 1989, my friends at CITIC introduced me to seven young, great people who were called the Securities Exchange Executive Council, which was a group of seven people, which was put together for the purpose of making the first stock market in China since after liberation. There was no money then really, and they were in a dingy hotel. And these great people made the first stock market. And my relations continued. And along the way, I had contact with all sorts of people, including very common people because my son went to an old Chinese school there when he was 11, and eventually formed, and ran a foundation for 12 years, that helps special needs orphans in China, and that brought me to all sorts of parts of China and all sorts of people in China. And that affected my perspective of China.

In these 36 years, since I first went to China, I've seen China's per capita incomes increase by 25 times, life expectancy increase by an average of 10 years, and the average number of years of education increase by about 80%. I saw capitalism develop and flourish, and the capital markets develop and open up. I saw how the Chinese stock and bond markets became the second largest in the world. I saw up close how these things happen. I also saw how China became much more welcoming to foreign investors. For example, while in 2015, only 1% of the markets in China were accessible to foreign investors, now, over 60% are available to them.

Because investing is a matter of finding relative attractiveness, I make comparisons, and comparisons are important. And simultaneously with my watching China evolve, I watched the United States evolve in ways that concerned me. For example, the creating of a lot of debt and the printing of a lot of money, which in history, was a threat to reserve currencies. And that prompted me to study the rises and declines of reserve currency empires over the last 500 years. The chart I'm showing you here goes back 500 years. And it shows the major empires during that time. This is an aggregate measure of power made up of eight other measures I'll explain in a second, but the blue line is the U.S. and the red line is China. And I think it pretty much speaks for itself in terms of that progression of Chinese power in many ways. That power index is made up of eight gauges of powers, which have been shown to be the most important. These are the powers of education, innovation and technology, competitiveness in world markets, share of world trade, economic output, military, and the strength of the financial sector, and the reserve currency.

This next slide shows each of these power indices for the United States and China. They pretty much speak for themselves. I won't take you through them. We don't have time, but you get the idea. But I would like to draw your attention to the two that are lagging

the other measures of power in China. They are the power of the reserve currency and the power of the financial markets and the financial sector. These powers traditionally lag other powers but inevitably catch up.

In studying history, I saw that all leading trading empires over the last 500 years had the world's reserve currency and the world's financial centers. During the 1600s and the 1700s, the Dutch guilder became the world's reserve currency and Amsterdam became the world's financial center after what we now call Holland, became the world's largest trading country. In the 1700s, in the 1800s, the British Pound became the world's reserve currency, and London became the world's financial center, and that was after the British Empire became the world's largest trading country. And in the 20th century, up until now, the United States dollar became the world's reserve currency and New York became the world's financial center after the U.S. became the world's largest trading country. China is now the world's largest trading country.

I believe China is now evolving into that role. Even though China's shares of world trade and world GDP are comparable to the United States' share, the renminbi is less than 2% of global reserves, World Trade invoicing, and cross-border lending. In contrast, the U.S. dollar accounts for over 50% of global reserves and trade invoicing and is around 60% of cross-border lending. I expect that to change as China moves to internationalize the renminbi and open up its capital account. China's capital markets are opening up to foreigners and non-Chinese investors who are underweighted in them. For example, though China accounts for now roughly 15% of world equity markets capitalization, accounts only for a couple of percent of global investors portfolios. So I believe that this is a very special moment because simultaneously, there will be the confluence of the rapid development of the Chinese capital markets, the opening up of these markets to foreign investors, the relative attractiveness of them, and the underweightedness of global investors in them. And this is happening when the fundamentals are undermining the U.S. dollars. I believe that these developments are likely to lead to capital and knowledge inflows into China, and that will benefit the Chinese capital markets and more broadly benefit foreign investors and Chinese investors, too.

Because of how I see things, and the contact there, I've been a chronic bull on China. People have accused me of being biased, naïve, and in some cases, unpatriotic. I think I'm just being objective. Maybe I'm missing some important things that this extremely well-informed audience can help me see. So I'm looking forward to our conversation, Steve.

Orlins: That is a fabulous introduction. And basically, a statement about why your book is a must-read because it really goes into a lot of those concepts in great detail. So it's fair to summarize to say that you're looking at America in relative decline versus China, and China at relative ascent. Is there something that the United States can or should do to, kind of, prevent that relative decline?

Dalio: Well, it all comes back to those eight basics. But let's put it into basics. All individuals, companies, and governments, at the end of the day, have to earn more than they spend and they have to have a solid balance sheet of assets which are greater than liabilities. And you could see reverberate through the economy with this shock, those who have those things are in good shape and those who don't, are in bad shape. That's true, whether or not you print your currency or not. So what that means is you have to have either be able to be more productive because we're running deficits in these

regards. And now we're funding with that which we're printing. So you have to raise your incomes or you have to cut your expenditures.

We're lucky to have the exorbitant privilege of the reserve currency, which allows us to do that, but we're testing the limits of that. The other things that successful empires have done over there is they have excellent brought in education, and not education just in terms of subject matter, but the teaching of civility of how people should be with each other. And by and large, they work in ways that can be competitive and inventive, but they're rowing in the same direction. And they are, as a result of that, pursuing the same missions, and they have a common dream, you know, we called it the American dream, let's say. I think we need an American dream, a dream of what are we going after that we can agree. I thought it was equal opportunity. I would believe an equal opportunity might be a good thing. But anyway, you have to have a common dream. You have to have metrics behind that common dream. And then you have to be pursuing it together. Those through history have been, you know, the most key elements of country's successes.

Orlins: The reserve currency question, you have 50% of reserves held in dollars, 2% held in renminbi. It's much more than global trade, it's confidence in the currency since the renminbi is not truly convertible. What's gonna happen in the future that's gonna convince those that are holding reserves to be holding RMB?

Dalio: Well, traditionally, you could see that there's the development of the RMB. By the way, I think it'll evolve over decades, but I think it'll evolve pretty quickly. There is the loss of confidence in the reserve currency, which drives people to see alternative storeholds of wealth. So, for example, when there's a debt issue, there are two ways of dealing with that. There's hard money, you know, you're traditionally backed by gold. And when that happened, then there was breakdowns in that monetary system, the valuation. So when, for example, classically, March 1933, Roosevelt, with the debt problem, was forced to go off the gold standard, printed a lot of money, devalued the dollar, and then it moved on. In 1971, we had the same. Nixon did the same thing, went off the gold standard, and devalued and so on. And the creation of a lot of debt and money means that money goes someplace else. And it traditionally, both of those cases, it went into stocks, gold, and other places.

So money is always the holders of money, which are the holders of bonds. Bonds are a promise to receive money, a lot of money, over a period of time. It's a very long money position. And when those become unattractive such as now, let's say, you get zero interest rate or close to zero interest rate or even a negative interest rate. And there's a lot of creation of debt and a lot of printing of money that drives that into other assets. They may not be another currency if there's not a good currency. They may be stocks, they may be gold, and they may be another currency, but it is that, kind of, time that we're in. So next year, and the year after, no matter what, we're going to have large deficits. We are going to produce a lot of debt. And we will monetize that debt and that debt will have a negative real return and therefore people will borrow in it, will find it more advantageous to borrow in it than own it, and then they will move to other assets. So that is one ingredient that's happening now, at the same time as a number of ingredients, the opening up of the capital...

Orlins: Don't we need convertibility? Don't we need convertibility with the RMB?

Dalio: No, no, you don't need... Capital flows you don't need total convertibility. History...

Orlins: How can you have confidence if you're sitting in a central bank in Japan or the EU or anywhere else, if it's not ultimately convertible? You have an obligation to your people.

Dalio: Oh, no. It depends on the nature of the convertibility. The capital account, by the way, is going to be open. You're seeing now an opening up of the capital account, you will see. And you will also see more internationalization of the renminbi. But today, I'm an investor in Chinese capital markets, for the last couple of years it's been...and I can safely bring my money in and out. And I have to in making those decisions, decide what the relative risks are of one type of risk versus another type of risk. Any country, including the United States, can establish capital controls. And there's a risk that countries take.

Orlins: China does have capital controls. One is theoretical, one is actual.

Dalio: But the degree of capital controls, as an investor who brings international money in and out of there, some onshore, some linked because of the links that they've created in Hong Kong, for Hong Kong markets, and so on, I can get in various ways, those types of exposures both onshore and offshore, in a way that allows me to put my money in and take my money out. I can do that. So it's not an impediment. As a professional investor who's doing this, I can guarantee you, it's not an impediment, and so when making those choices.

Now, I recognize that at any time that that could be closed and you might have issues and so on, just like I recognize, you know, it's a risk here. But one has to weigh those risks because in weighing those risks to be absent. The Chinese capital markets is very risky because if you're looking at this almost as being...think of it just as diversification, there's the United States, and there's China. And basically, those are the two big economies, if you're dealing with industries of the future, technology, and so on, to be heavily weighted, entirely weighted almost in the countries that are the older, you know, the reserve currency countries, the United States, Europe, and Japan. And you look at those older, more indebted countries that are having problems with monetary policy because they have to produce a lot of debt and produce a lot of money to do that. And to not be in China is to me, in my opinion, risky. So I feel that I have to have a diversification and I compare those risks. So none of the risks are zero. It's just a matter of assessing that.

Orlins: Yes, totally. Yeah.

Dalio: And I can tell you, that market that foreign investors are moving in, and the Chinese are doing things to build confidence, they can undermine it. I think that the diversification benefits outweigh the risks.

Orlins: Did the delay of the Ant IPO affect that whole concept?

Dalio: No. It's such a good example that Westerners I think are like on their edges of the seats, and they pay so much attention to the one development. We're almost like news-hungry people, what's today's development, and they don't pay attention to the evolution. I've had a lot of dealings with Chinese financial regulators and I could say that, generally speaking...no, not generally speaking, almost always speaking, I've found them to be reasonable, caring, and highly informed people who are now in an environment which is

changing at an extremely fast pace. And that there's a risk of being too loose or too tight, particularly on new types of investment. The Ant is a whole new concept, innovative concept, in terms of banking, and almost could replace or threaten the banking system in China, and it hasn't yet been properly established in terms of regulatory review and the like. And so that's an element.

And, of course, it's important to be clear that what we have in China is state capitalism. So state is going to control those things. But I've watched in the United States in terms of regulatory authorities struggle to try to get the balance between freedom of what is being done and restrictions on what is being done right. We had the financial crisis in the United States because they were too liberal in terms of controlling some of the things that were being done. There's always a wrestling match on that. And then I think Ant got ahead of that, it's up to one to interpret that, but anyway, it's the regulatory authorities to decide that. And so I think it was progressing too fast. And it had to be clear as to who the authority was.

Orlins: At one point in my life, I was an investment banker who did IPOs, if three days before an IPO the deal was pulled, wow, that probably would have been the end of my career, at that point. That's quite a...we're not in good contact with the regulators if that happened.

Dalio: China is not the same. We can't judge China by the same exact standards in the same ways. And I think that people could make the mistake of mistaking imperfections for the changes in the directions. So as I'm saying, if you look at the directions, and you look at what's going on, those are the trends and those are the forces about the big things that I think that are going on.

Orlins: I mean, one could make a strong argument that if you compare the language of the third plenum of the 18th Party Congress, which was in 2013, to the two weeks ago, the fifth plenum of the 19th Party Congress with respect to state participation in the economy, it's really quite starkly different. And a lot of the Chinese miracle that you have witnessed in your 36 years and I've witnessed in my 41 years in China, is based upon the private sector. And is the miracle gonna continue if the state is playing such a major role?

Dalio: I think it's important to know the people and to understand the intentions and then interpret the actions in light of those particular intentions. I think a lot of foreigners may misunderstand that the very strong reform policies that we've seen pervasively at an extremely fast pace are also happening at a time when there's not going to be total or unleashed state-owned enterprises because there's certain benefits. So I see they're wrestling with the question of, what should be a state-owned enterprise and what shouldn't be a state-owned enterprise? Is that a strategic enterprise? Should that be a public-private partnership? Should it bring in equity or...? And so the desire to corporatize, or privatize, or whatever, a lot of state-owned enterprises, and at the same time, to keep them also many of them, in control.

Let's remember that this is a capitalist economy and that when matters of employment are entered into there, and direction, everything is not a free market society. In the United States, it's almost entirely a free market. That has good and bad things. Sometimes it's difficult to get resources to where the resource you should go sometimes in education, whatever, building infrastructure, building roads is a challenge in the

United States. There are pros and cons. But in this state-capitalist type of system, there will be those types of controls and directions. I think it would be a mistake to say that the privatization, let's call it, of state-owned enterprises in China is not happening the way we capitalists would like, to mistake that to being that China is not producing capitalist type of things like the development of capital markets, the increase in efficiencies. I mean, we could just look at the results, you know, we could look at how COVID was handled, how their economy is handled. And so thought, if we're so hung up on getting it exactly that way, then we might miss the bigger things that are going on.

Orlins: And I would argue that the returns on state-owned capital versus private capital are much, much lower, and ultimately, they will have to pay a price for that.

Dalio: Investors have the beauty of being able to decide whether they want to go into or not want to go into those enterprises. But you must agree that there's a plethora of wonderful companies. This year we'll probably have something like 40% of the IPOs in the world, big IPOs be Chinese companies on Chinese markets. Anyway, a lot of them will be Chinese companies on Chinese markets. And we as investors have to decide whether we wanna go to those companies and those markets or not. And so there's a lot there to offer while you might choose to stay clear of the state-owned enterprises, if you like.

Orlins: Great. Well, let's go to our first audience question from Jasmine Fan at BlackRock.

[Video submission] Jasmine Fan: Hello, my name is Jasmine Fan from New York. And my question is, how do you think American investment companies should position themselves in the world of U.S.-China decoupling, but also to consider opportunities in the gradual opening of China's financial market? Thank you.

Dalio: Thank you for your question. I think the world is changing in very profound ways. And I think that sometimes when we look at it up close, we can miss the big pictures of change. And that it is changing where China is really gaining its stride. And, anyway, it will be a competitive power. So I think that investors and investment managers have a responsibility to know China will be there and make investments there as they must. I'm a global macro investor so I have to be in all the major markets and assess those. And I think that diversification and being there and being aware, so that you have an intimacy of understanding of what's going on in China, and make those choices from that intimate, up-close perspective, I think is required.

Orlins: If you're roughly at 3% now, and you're saying a neutral weighting would be 15%, how long do you think it'll take for international investors to move to that weighting? How many years...?

Dalio: Well, by the way, that 15% is also growing at a fast pace. So I expect the 15% will grow. And I expect that the 15%...so the 15% will grow and the share of that will grow. I can't tell you how fast, but I would say maybe, you know, something in the vicinity of a 30% to 50% growth rate annually, and that probably more.

Orlins: Yeah. Is Central bank digital currency going to play a role in this now that it's begun to be rolled out in China?

Dalio: Let me explain digital currencies for a second, globally. There are two purposes of an exchange rate of a currency, and that is as a medium of exchange and a storehold of wealth. So there's the digitalizing of the clearing system. No central bank, I believe, is going to allow an alternative currency to gain strength, such as a Bitcoin type of currency and so on. The power of having your own currency and being able to print your own money is an enormous power, and I don't think that you will see anything like that. But the digitalization is not only efficient from a transaction point of view, it helps to minimize the risks of the existing clearing system, which is fairly heavily influenced by the United States. Some of our sanctions, a lot of our sanctions, as you might understand, which probably sanctions are our greatest power, the United States' greatest power, happen by influencing through sanctions, currency movements through the SWIFT clearing system and the like. Digitalization helps to reduce those risks. So that's what's going on with digitalization and I expect that it'll be successful.

Orlins: Even though Ali and Tencent already had what was in effect digital payment systems? Again, is this a question of the state participating where the private sector was already in it?

Dalio: This is the government digitalizing the currency, offering a digitalized version of the currency.

Orlins: Let's go to the next video question, the next question from Kori Cooper, Columbia Law School, Black Voices on Greater China.

[Video submission] Kori Cooper: Hello, my name is Kori Cooper. I'll be attending the CHINA Town Hall keynote program with Ray Dalio online. My question has to do with the future of U.S.-China business relations. General Secretary Xi Jinping recently gave a foreign business-friendly speech at the third China International Import Expo. However, given President Trump's propensity for blaming China when questioned about the U.S. economy and the desire of some officials in his administration to demonstrate they're "Tough on China," I wonder what your thoughts are on how likely it is that business relations could actually deteriorate rather than improve further between now and January 20th when Trump officially leaves office? Thank you.

Dalio: Well, there's the question of the conflicts and then there's the date, both are embedded in that question, I think. There are five types of conflicts that exist with the rising power challenging an existing power. They are and we call them wars, there's a trade war. There's a technology war. There is a geopolitical war. There is a capital war. And then there is a military, let's call it, competition, that could conceivably be into a military war. They're all connected. And because of the threats of those, we are having decouplization taking place and which means the building of sort of self-sufficiency. And so that is going to be with us for a long time, and how those conflicts are handled will matter a lot.

As far as the Trump moves between now and the end of the year regarding any actions with China, my own guess is that there wouldn't be any big developments that would be traumatic or surprising in either side, but I'm not the geopolitical expert who should be offering those comments as well as other people here. But by speaking to many of those, I would say I wouldn't expect between now and January 20th, significant developments in Chinese-American relations pertaining to the things you're asking about.

Orlins: Yeah, we have to hope not. Though there were additional sanctions put on people in Hong Kong last night by Secretary Pompeo. You mentioned technology. Let's go to a question on technology from Nick Young in San Francisco.

[Video submission] Nick Young: Hi, everyone. This is Nick Young in San Francisco. As the U.S.-China tech war intensifies, both countries are pursuing separate models of global cyber governance with distinct values and ecosystems. China may have initiated this process when it blocked Facebook, Twitter, and Google more than a decade ago, but now the United States has retaliated by issuing executive orders banning TikTok and WeChat. With no positive turn in sight, what would a technology decoupling look like? And what would be the consequences?

Dalio: The technology decoupling, of course, there's so many technologies and so many applications, but let's say at the big picture level, it certainly reduces the pace of development and it puts entities who are trying to juggle both, you know, sort of on edge. In my opinion, it sets back development, particularly in the United States in some ways. In China, let's deal with that privacy issue. It is technologically a fact that the more data you have, and that the more artificial intelligence is applied to that data, the better you can understand and manage things. So from a competitive point of view, I think it's a desirable thing to have the kind of massive collection of data. I've heard just different numbers, eight times as much data per person and so on.

And, of course, the other side of that is the privacy side. You know, each person comes down where they want, what is the benefit of that privacy? In China, most people view that absence of privacy as something that brings about better security and a more civil society. In the United States, we value personal privacy issues. I'm not gonna get into that. But from an efficiency point of view, it's contrary to efficiency when those technologies are decoupled and it also is somewhat of a disadvantage technologically, to have more holding of data private than to use it in a broader way.

Orlins: Raises the question of reciprocity, though, that Facebook, Google, YouTube, Twitter have been blocked in China for a number of years now and WeChat and TikTok and other Chinese social media apps are able to operate in the United States. How do we resolve that question? In other words, there's a sense, and I've heard this a lot from the Trump administration. I oppose the WeChat and TikTok bans in the United States, however, the response from the Trump administration is, it's not fair because we can't operate similarly in China.

Dalio: I think everybody has to look at the bigger picture. What are the most important things in each country that'll be lines that won't be able to be compromised? And there are different things in different countries. So, you're not going to get equal approaches. For example, the privacy issue and Google and so on, developing in China has to do with how information is managed in China, that is managed in a way that's different from how it's managed in the United States. And so reciprocity is not going to be something that you can develop policies on, we're gonna have the same reciprocity, you could use them as negotiating. So I think you have to look at the, you know, what are the most important things in China, and there's a certain government approach that doesn't have that same free flow of information, particularly foreigners. However, there's an economic component of it, too. Some countries are protectionist, more protectionist, and more protectionist in some ways than other countries. So those are matters of negotiation. But

they can't be approached, like...you know, that we can demand reciprocity with matters that are not equal.

For example, the big issue for the Biden administration, is the human rights issue. Okay. That issue is going to be then dealt with with a sovereignty question in China. China would view a human rights question as a sovereignty question. Should countries operating outside there, outside some of this jurisdiction, assess, and judge, and exert pressure on how they should deal with domestic affairs and so on? So how will that work out? They'll probably be a whole lot of arguing about that. And then it'll come down to, you know, who has what power? At the end of the day, this whole thing's going to come down to who has what power? And that's why I think we, almost in the United States, the most important thing is focusing on how we can get stronger. But anyway, those issues won't be resolved by expecting, we do it and then they'll do it, too.

Orlins: See that the problem we have because we're dealing...you know, obviously, I'm dealing with the Congress dealing, hopefully, with the new Biden administration is when there are violations of what are universal values, this isn't a question, you know, that it becomes extremely difficult to persuade the Congress, the American people that we should even be dealing with them on a lot of these issues. So when you talk about reciprocity, people just go, "Well, it's just not fair. It's just not fair. We shouldn't be allowing that." And the argument the Chinese make with respect to Facebook, Google, YouTube, Twitter, actually doesn't hold water. It's exactly what you said in the second part, it's protectionist. It's economic protectionism. It's not truly national security. And if China is not willing to enter into discussions on these kinds of issues, it's gonna be really tough to get to a constructive relationship.

Dalio: Well, I think the problem is that different people have different views about what is fair. And the reality of world affairs is that those interpretations don't matter really much in international relations, maybe, unfortunately, but maybe, fortunately, because if different people have different views of what's fair, maybe you can get there. And the only thing that really matters are relative strengths, relative powers because it's a negotiating thing. And so, you know, it's very interesting in the history the United States, really, starting under Wilson, Woodrow Wilson, was the first country in history to view that the relationships between countries should be analogous to the relationships that we want to have between people within countries. In other words, he viewed that the United States as a democracy and that the way people should be with each other, should be a model for world governance. And that's why he formed the League of Nations and the League of Nations failed, and the United Nations failed after it.

So there's not a world organization, there's not a world court to adjudicate differences. So for example, if you say that, you know, the world wants, let's say that human rights issue and so on, I would suppose if the world signed an agreement, and agreed by, and had enforceability so that they were that, then you can bring them to the world court and resolve that. And let's say on the issue of WTO, China brought issues of WTO to the WTO, and certain things were decided in its favor, certain things were decided against it, but the WTO is not a governing institution. It doesn't work, and neither does the United Nations, because power is where it comes down to. So Americans have gotten used to, comfortably used to having their way and deciding that, okay, that's fair, that's not fair, and so on as an extension of the power that we had. As a result of...you know, in 1945, we created a new world order, the American World Order. And we had power, economic and military power, and so we really got to judge others and determine what was fair. I

think that, you know, we're not gonna be able to resolve that. And if we keep looking at it that way, we may not get what we want. I think we have to look at it realistically.

Orlins: I think the Biden administration is gonna look at building coalitions and to the extent that a country is perceived as a violator of international law, it will be much easier to build the coalition against the behavior that was a violation of international law. If you look at the ruling under the convention of the Law of the Sea, which was against China in favor of the Philippines, it put a lot of pressure on China to modify its behavior because it does not want to be perceived as a violator of international law by other countries, especially by the ASEAN countries who were involved.

Let's go to some of the cooperative aspects of the relationship. A question on climate and health from Benjy Renton.

[Video submission] Benjy Renton: Hi there, my name is Benjy Renton and I'll be attending CHINA Town Hall in Middlebury, Vermont this year. And my question is, what do you see as the most important area for the U.S. and China to collaborate on science and research? And how can these two superpowers learn from COVID-19 and work together to prevent the next pandemic?

Dalio: Well, I think that's a great question. And there's tremendous opportunity for cooperation. And, you know, it almost goes back to Ping-Pong diplomacy, but the idea of dealing with climate change, that's a common interest, not only this pandemic, but global health issues. Just the reestablishing communications and looking for areas of cooperation, I think would go a long way to improving the psychology and demonstrating the win-win potential of those relationships.

Orlins: Let's go on to society and culture. You know, the committee has been doing a lot of programming on, kind of, anti-Asian bias in the United States. And you've written extensively about a persistent anti-China bias. Many of these subtle prejudices have come out in the open in the past year. How pernicious do you think this threat is and how do you become more empathetic with our cultural differences and yet hold firm to our values?

Dalio: Again, I'm like a mechanic, I don't have an ideology pertaining to this, I'm just a mechanic. Anger, traditionally, comes racism, demonization across classes, comes during periods of economic distress. And so we see it here in the United States. A number of statistics that could show is that the majority of Republicans and the majority of Democrats actually hate the other side. And so whether that's rich, poor, racial, geographic, all of those prejudices sort of come out, particularly then if you have an opponent. The idea of demonizing the other side, in pursuit of good versus evil, is the way that normally happens. So we're seeing that happen.

Now, what does that mean? I mean, I don't think it's a good thing. I think it's, you know, understanding, having contact with each other. It does a world of good in all of those cases for, you know, the communications, understanding, it helps people understand each other. So, you know, but I don't think... What can be done? I think whatever propaganda or views are largely going to be extended by the leadership, and the media. So it's quite often the case that when a country has problems, they try to bring it together by finding an enemy on the outside. It would go a long way if President Biden said something nice about China and the Chinese or the potential of working together, and it

would be very nice if President Xi reciprocated and they took some actions along those lines. And then there would be a whole fillet, a change in the meme, in terms of those kinds of things. But it's a symptom of our times, I think.

Orlins: Yeah. Yeah, I fully expect the Biden administration to take action against the anti-Asian bias that they will make statements, they'll revise visa policies that relate to really ethnicity. They'll end the Muslim ban. They'll revise visa policy towards Chinese students. They'll revise H-1B policies. I expect that they will do that because they've really... I think the Asian-American community came out strongly for President-Elect Biden.

Dalio: I expect that'll be the case and I hope so. At the same time, these deep-seated prejudices about even the scenarios that are underway are...there's a percentage of a population, a large percentage that nurtures those.

Orlins: Yeah, and I think we need to...you know, transparency and light is a great disinfectant. And we need to make sure that, you know, that does not shape the formulation of American policy.

Dalio: I believe the challenge, though, on that is also the media. The media when put together with politics, you know, it's nice for us to say, but it's difficult to get that kind of light shone on.

Orlins: Yeah. I mean, I think the media is actually pretty good in this respect, you know, and we've seen the media...you know, a Chinese-American correspondent working for CBS called out in a White House press conference in what to me, was one of the more shocking events over the last four years. Let's go to a question from Blake Moss in Kentucky.

[Video submission] Blake Moss: My name is Blake Moss, and I'm from Lawrenceburg, Kentucky. My question is why should people from small towns like Kentucky and other places across the south even care about U.S.-China relations? How does it affect them in their daily lives? Thank you for taking my question.

Dalio: Good question. Well, it affects you certainly economically. A lot of the goods that you buy at relatively low prices have been produced in China and so that affects you in that way economically. And, of course, their competition has affected jobs, certain types of jobs, that have moved to China, and that have left the United States. And so that has an effect on you. And then, of course, what happens to our money, the value of our money, its purchasing power, is affected by what happens in the United States and what happens in China. And then, of course, then there's this great geopolitical struggle, which might or might not affect you, depending on, you know, what transpires? You know, hopefully, that won't affect you. And so you'll hear about all the struggles in the South China Seas and so on, and maybe that won't matter. But the technologies you use, the cost of the goods that you have to buy, the jobs and so on, are affected a lot by Chinese-American relations.

Orlins: Is it fair to conclude, Ray, that you think the greatest enemy of America is itself and the greatest enemy of China is itself?

Dalio: Yes.

Orlins: And if so, kind of, give us a sense of why and what that means for policies?

Dalio: Well, because all of this is a natural extension of strength and well-being. And so those eight measures that I mentioned before, are the fundamental underpinnings of strength. You know, the quality and extensiveness of education. The civility of the people. Then the development of resource allocation systems, such as our capital market's allocation system. Our ability to produce things at competitive rates. Our ability to then earn more than we spend. And the development of a military that keeps you strong and protects you. All of those things, those fundamental strengths, through all history, through all time, have been most important in determining the well-being of countries. And so we rise and decline based on those.

So for example, if we threaten the reserve currency status, let's say, nowadays, we're gonna have to produce a lot of debt. I go through the calculations, who will buy that debt? Americans don't have enough capacity to buy that debt, all that debt. They have to sell it to others outside the world, the outside world. Those others already own too much of it and they're a little bit worried about what the return on that's going to be. Americans even on bonds, pension funds, endowments, don't think that bonds are going to give them the returns that they need in order to be successful. If you don't buy the bonds, and so on, then you're going to have to not buy more than you can afford to buy and all of that. So these basic fundamental underpinnings are what makes a place strong, competitive in the world, makes a currency strong and competitive in the world to encounter others in the world. That's just basic.

Orlins: We're out of time. So let me just close with a question which Chinese media and American media ask me all the time, which is, are you pessimistic or optimistic about the future of U.S.-China relations?

Dalio: I'm more optimistic than pessimistic. It won't come the exact way that I would want it to come. And I guess it depends, you know, on how long it'll be. But I think if both countries are allowed to evolve albeit with the risks, then it'll be fine. The Thucydides Trap example is a good example. In the last 500 years, there were 16 times where a rising power challenged an existing power. In 12 of those times they had military wars. That would be a disaster. And in four of those times, they didn't. If we can look at those times that they didn't and the need for overwhelming, and recognize and remember history, remember how terrible those are and how good win-win relationships are, and we can evolve without those kinds of things, which I think is most likely, it's the most sensible thing to do, then we will both evolve. We'll evolve, and we'll evolve together probably, with arguments, but it'll be okay. That is an optimistic scenario for me.

Orlins: And I very much hope the Biden administration hears that and we can work towards achieving the optimistic scenario. You know, my answer is always it depends on what the Chinese government does, it depends on what the U.S. government does, and it depends on the people relationships that are so strong and hopefully will get stronger.

Thank you, Ray, for such a wonderful, thoughtful, thought-provoking conversation. And thank you all in the audience for participating in the first night of the National Committee's 2020 CHINA Town Hall series. We hope you will also join us for the rest of our CHINA Town Hall programming with our next program coming up on Thursday. More information, including program registration can be found on our website at ncuscr.org/cth. Thank you again for joining us, and have a wonderful day.