

# **Center for Strategic and International Studies**

## **CSIS Press Briefing: President Xi Jinping's U.S. Visit**

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MICHAEL GREEN: (In progress) – talk about the economic context.

So to begin, you all know that tomorrow President Xi arrives in Seattle for two days. Meetings with Paulson Institute, former governors like Gary Locke. This is a classic Chinese tale of two cities – very common practice now to stop in Seattle or somewhere before Washington to demonstrate the benefits of U.S.-China economic relations, engage a community in a different Washington – a Washington that's less focused on security and human rights, and more focused on business. Sort of a classic – a classic pattern.

The meetings here begin on the 24<sup>th</sup> with a working dinner at the White House. This is useful because a typical summit, as I've mentioned in the past in these briefings, is 50 percent consumed with translation. And a lot of issues – I've been in many of these; I was in the NSC for five years – many of the issues have to be said, even if there's not going to be any traction. There are constituencies in both countries that want to be told, yes, we raised issues A, B, C and D. So a working dinner – two hours, probably – is useful because it can be more candid and there's an opportunity to focus on issues and not just exchange talking points.

The next day, September 25<sup>th</sup>, President Xi gets what for the Ministry of Foreign Affairs and the propaganda ministry is the most important part of the summit, which is the 21-gun salute, the protocol, the treatment of President Xi as a – as an equal and the leader of a major power. Typically – and I asked my successors in these jobs the other day – typically over half of the negotiations in advance of these summits are about protocol because that's the part that the Chinese side is most consumed with. Sometimes you can trade a little bit of substance for protocol. The American side sort of has set-piece protocol practices and it's less of a – less of an obsession on our side.

And then President Xi goes to New York for the U.N. General Assembly meeting for the rest of the week.

Historically, every American president since Richard Nixon has premised U.S.-China policy on engagement and on the bet that our cooperation and dialogue with China will change China in positive ways before China becomes so powerful that it changes the world. We're at a point where there's debate about whether that premise was right, but I think the consensus in both parties and among foreign policy experts is that it still is right. But since the mid-1990s, successive administrations, beginning with the Clinton administration halfway through, began a combined approach which involved engagement, expansion of cooperation on the one hand, but also balancing with allies, with military. Some people say "hedging." I think "balancing" is a more useful term. So that combination of engage and balance has pretty much characterized late Clinton, Bush and Obama.

The problem the Obama administration has had is that China's bigger, their problems are more complex. For a time, we looked weaker because of the financial

crisis. And so getting that engage and balance combination right has been difficult. And the Obama administration has swung between the two rather than advance them simultaneously.

So initially, in 2009, where the Bush administration had said we sought – Bonnie always corrects me because I get these out of order every time, and I wrote this – but the Bush administration sought a cooperative, comprehensive and candid relationship. The Obama administration came in and dropped “candid” and added “positive” relationship, spoke of strategic reassurance with China. And in November 2009 in Beijing, President Obama and President Hu Jintao agreed in a joint statement to respect each other’s core interests – which looked to allies in the region very much like spheres of influence and movement towards a kind of U.S.-China condominium, sometimes called a G-2, but the original authors of G-2 had in mind management of the global economy, not management of Asian politics and security.

The administration then swung more heavily in the balance direction in November of 2011 with the pivot and the rebalance and the Pentagon’s guidance, which in January 2012 mentioned China and Iran as threats in the same sentence.

Then swung back in the other direction in 2013, as Secretary of State Kerry, National Security Adviser Rice and others began embracing Xi Jinping’s proposal for a new model of great power relations – which sometimes is translated into English now as a new model of major power relations, but the Chinese characters are exactly the same. And for the rest of Asia, the message is clear: the U.S. and China are great powers, Russia’s a great power; Japan, Korea, India – our allies – are not. And so it is extremely unpopular among our allies.

Secretary of Defense Hagel kind of walked that back two years ago at Shangri-La, when he dropped “great power” in a speech and started talking about a new model of relations. My understanding is that President Obama himself – although Xi Jinping has raised this three dozen times in public, President Obama himself has never embraced, privately or publicly I’m told, this new model of great power relations. But this is the kind of difficulty the administration’s having calibrating and setting a consistent theme for China policy within a consistent combination of engage and balance, like Clinton and Bush, but with this swinging back and forth. And you can see some of that difficulty in this summit.

The big security issues – which Bonnie will address, and Chris, in more detail – cyber, the South China Sea – the likely deliverables from the summit are, as you may have seen in the press, some kind of no-first-use agreement on cyberattacks on critical infrastructure, and on the maritime side an agreement on air-to-air, jet-to-jet, plane-to-plane avoidance of conflict. This is an extension of the Navy’s CUES, initiated last year to prevent incidents at sea. And these are not insignificant. They’re important. But they are reassurance and avoidance of escalation, or setting down some principles. The cyber principle on no-first-use against critical infrastructures is a U.N. agreement on code of conduct for cyber. And what’s not happening is any agreement on the Chinese side to

stop doing these things – to stop building up in the South China Sea, where there are now four 3,000-meter military-style runways under construction or completed; nothing about stopping cyber. So the summit will probably end up with some useful conflict-avoidance or reassurance agreements, but no fundamental progress on the core problems on the security side that are gripping the attention of the Congress and the American people.

I think the administration has wisely lowered expectations of any kind of fourth communique or major breakthrough. They've moved away from some of those early ambitions. But the difficulty they're going to have is how to explain success when the core actions from Beijing that are security problems for us and our allies are going to continue unabated. It's a real challenge.

And I'll turn it over to Chris to explain if there's a way out.

CHRISTOPHER JOHNSON: Thanks for that, Mike. (Laughs.)

I thought I would start off with just a couple of quick points. One is to look at the context of President Xi's visit for him domestically, politically. There's been a lot that has been written and said, with China's recent economic volatility, how this may have impacted the president's domestic political standing and what that means with regard to possible U.S. leverage with Xi Jinping on his visit here. Second, to sort of describe Xi Jinping's broad approach to the U.S. relationship – how he thinks about it in general terms. And then, third, to sort of get down to the specifics that we might expect from him on the visit.

On the political situation with regard to, you know, where he stands now, I find it interesting that, you know, with the stock market intervention in June and then the devaluation of the Chinese renminbi in August, we've seen a lot of sort of questioning of the – of the general competence of the – of the Chinese leadership to manage this massive economy. This has been one of their great strengths over the last 30 years, that they have developed a sort of reputation for what you might call sort of near-infallibility in terms of managing the economy well. Looked at in their – in isolation, the intervention, the devaluation, et cetera, with your Beijing glasses on, you can sort of see the justification for why they did what they did. But the problem for the entire leadership, and for Xi Jinping himself, is that those two incidents – I would throw into it the explosion in Tianjin Port and also, to some degree, the military show that we saw some weeks ago with the parade to mark the 70<sup>th</sup> anniversary of the end of World War II – are all sort of being conflated into a narrative that suggests maybe there's no one at the steering wheel managing the economy, or at least that these guys are having real difficulty.

Having just gone to Beijing myself – been back for about a week now – I would say my impressions coming back – and let me also say that I think in the sort of primarily Western Sinological community, but you know, in some of the Japanese and other Sinological communities as well, in the aftermath of all of this there's been a sort of rush to suggest that the – yes, indeed, the bloom has come off the Xi Jinping rose and he may be China's next Khrushchev, you know, and so on. I'd say that that's not at all the

impression I got from speaking to people across a wide range of political factional alignments within Beijing. Xi remains very strong, clearly the sort of undisputed powerhouse within the system.

To the degree he's been dented at all by this, I think it's in two areas. The first is his sort of aura of omnipotence that surrounds him with the Chinese public. And this is very important to him in that much of what he's doing – whether it be anti-corruption in both the military and the party, pushing through these very difficult reforms that affect various vested interests in the party – state-owned enterprises, people in the localities – it's not very popular in elite circles. And so he's been very reliant on that strong public support to be able to achieve what he's been able to achieve, and that continues to be very important to him. So to the degree that that piece has been damaged, that's really what he worries about, not the elite opinion more broadly.

And second, I think it has, for the first time really since he came to power in 2013, given his detractors, critics, whatever you want to call them, something to latch onto and to be able to go after him on. It's not that these individuals are great economic reform-oriented people themselves, it's just they see a political opportunity in the ability to go after President Xi on this. And I think that will continue. You know, there aren't much signs – Scott will get into this in much greater detail – that the economy is looking like it's going to head in a better direction anytime soon, and that does create some vulnerability.

Does this translate into leverage for the United States? I doubt it. You know, my sense is that much of China's economic game, despite the fact that they are becoming increasingly dependent on global markets, et cetera, is still very much an internal game. And historically, when we try to play in their internal game, it doesn't usually end well for either of us. So we have a – we have a leader who is still in a fairly strong position.

And it's interesting how he had a choice to make in thinking about how to structure the U.S. visit in his domestic calendar. They have a very important what they call a party plenum coming up here in a couple of weeks. They do that once a year, in the fall time. And he had a choice as to whether to hold that meeting before he came to the United States or after, and they've chosen to do it after. Much greater risk in that, in that if the visit does not go particularly well for him, then that weakens his position domestically ahead of this very critical plenum, where they'll look at important issues in both the economy and probably on personnel. So the stakes are high for the visit.

As to Xi Jinping's sort of broad approach to the United States, you know, generally a sense that, unlike his predecessors for whom the U.S. relationship was the be-all and end-all, and they probably spent 80 to 90 percent of their foreign policy bandwidth managing that relationship, President Xi is clearly less solicitous of the relationship with the U.S. That does not, of course, mean that he is – you know, does not want good relations. In fact, there's no evidence that I can see that, just like his predecessors, he continues to hold to the position that the relationship with the U.S. is number one. But we don't see him necessarily saying some of the things internally and

so on that his predecessors have that make that clear and clearly signal that to the system. And in fact, what we see him doing with his foreign policy time is investing a lot more in the relationship with the neighbors, primarily the East Asian neighbors. And then of course there's the Russia relationship with Putin as well, which was on – very much on display during the military parade, where Putin was definitely accorded outsized recognition by Xi Jinping. The two of them – you know, he – Putin was introduced last formally among the foreign leaders. They sat and chatted for several minutes. So the message was clear as to how he's thinking about that relationship.

On the security side with the U.S., Bonnie will get into this in more detail, but I think it's pretty clear that President Xi sees U.S. power in the region, especially the rebalance policy of the United States, as less of a constraint on Chinese actions than his predecessors would have. I think we see, time and again, both domestically and in the international area, that Xi has a higher tolerance for risk. It's easy for me to see how this is a good thing domestically if he's taking those risks on things like pushing economic reform. It's harder for me to see how internationally being a greater risk-taker is a good thing, but we can talk a little bit about that.

And then, on the economic side with the U.S., I think we see definitely a stronger effort under President Xi's leadership to advantage Chinese firms, to build a situation where they are pursuing the establishment of what you might call Chinese state-owned quasi-multinational corporations that are supposed to go out globally and compete with their U.S. counterparts. This is a very strong sort of element of his policy, and we saw just recently with the rollout of some reforms to the state-owned enterprises the clear goal is sort of a rebooting of China, Inc., if you will. And so this is causing real problems, as we've all seen, in the U.S. business community in that historically China's greatest ally in the United States, the business community, is now sort of more divided with regard to how to think about this.

There's been what you might call a Balkanization of the U.S. business community in China into sort of haves and have-nots, where the haves are U.S. firms that are producing things that the Chinese simply cannot do themselves or don't do very well themselves, and those firms are doing well. For other firms – in the kind of have-not category – if you have already either sort of a Chinese near-competitor or one coming up their tailpipe, things are difficult, or if you happen to be operating in a sector where the government has basically decided, for various reasons – primarily security – that they want to develop their own capability – think the ICT sector – this is becoming difficult. And so what the result of that is, is less unified pressure in the U.S. system on the administration to push sort of smooth and steady relations with the U.S., and that's a challenge.

Coming to the sort of specifics for the visit, I think it's pretty clear from what we've seen that President Xi doesn't see a great deal of value in investing in the Obama administration at this point. I think, you know, wrongly, but the Chinese have sort of concluded internally that he has already sort of entered this lame-duck status. I think several of us will remind the Chinese and do remind the Chinese that, you know, in our

system the president of the United States retains full foreign policy power until the day he leaves office, and they should be mindful of that fact. But we do see, I think, a hesitance to do much, and this is the challenge for the U.S. side as well, you know. Both parties in this summit are not particularly inclined, for their respective domestic political reasons, to help the other guy, and so that does create some difficulties.

We see in the setup of the visit, as Mike mentioned, that a lot of the action is going to happen in Seattle, actually, or in New York, and not necessarily here in Washington. Certainly the key interactions with business are going to take place in Seattle, and that's also where Xi Jinping is really giving his only major speech – which, of course, will have a heavy emphasis – I think the view there in the speech will be directed at reassuring the U.S. business community. He has a specific interaction set up with the ICT community, where clearly the message will be it's not as bad as you think, we welcome you into China with business and so on. So, to some degree, there will be an opportunity for the Chinese side to have something of a propaganda win.

As Mike suggested, one of the challenges in this case for the U.S. side is how do you grasp – you know, bear tackle Xi Jinping on these issues of contention – cyber and South China Sea and even human rights – when it's a state visit, when it's set in the context of a state visit? Because, let's face it, in state visits you generally emphasize the positive. That's point one.

Point two is President Xi has already been handed all of the goodies. He's going to get the arrival ceremony. He's going to get the state dinner. You know, various Republican presidential candidates can afford to be sort of irresponsible about suggesting that he take that back, but of course the president can't. So how do you leverage, you know, the Chinese when they know full well they've already largely gotten what they want and will get what they want? It's a real challenge. And I think what we see is some pressure coming from the administration on particularly elements of the U.S. business community to use these interactions in Seattle to push back on the Chinese a little bit with regard to some of these policies that I described earlier.

And then, so, just in conclusion, I think, as Mike suggested, we're unlikely to see Xi Jinping give too much on issues of contention, but only he can decide to change the narrative with the U.S. And I think we see, in the visit of this very senior security official who came last week – excuse me, two weeks ago now, I guess – to visit on the cybersecurity issue, cyber may surprise us. I agree with Mike, it's probably going to be a simple matter of, you know, critical infrastructure, but that's not a small matter. I mean, you know, I've been quite struck, as a matter of fact, that so far our two sides have not even been able to come to very basic agreements on issues like that that do provide some strategic stability in the cyber enterprise or in that area. So that will actually be a good thing.

Clearly, whatever took place in those discussions, it was enough for the administration to decide that they would not levy these sanctions on cyber, at least before President Xi arrives. My sense is they've perhaps painted themselves into something of a

corner domestically, and then, having talked about them, after President Xi leaves, if they don't levy them there's – and they don't get something that's very clearly some movement forward on the cyber issue, they're going to be in somewhat of a difficult spot.

So let me stop there and turn it over to Bonnie.

BONNIE GLASER: Great. Good morning. Let me build on what my – what my colleagues have had to say.

I just got back from Beijing last night, and the Chinese tell me that the Obama administration has given them a very long list of asks, and – (chuckles) – and they, of course, have a list themselves. And Mike and Chris have touched on some of those, protocol of course being number one. They don't want Xi Jinping to have to run into any protests around town. They don't want negative headlines, which they fear will portray Xi Jinping as not managing the relationship well.

Mike talked a little bit about this concept of new type of major power relationship. The Chinese are quite eager to have President Obama reaffirm that understanding. And apparently Xi Jinping is going to talk in somewhat greater detail to the president about what he means by that. Initially, at Sunnylands, he summarized this in three sentences, you know: no conflict, no confrontation; mutual respect for each other's major concerns and core interests; and win-win cooperation. So apparently there will be some elaboration of that.

And then, lastly, the Chinese are quite eager to get a bilateral investment treaty, although very much on their terms with a somewhat lengthy negative list.

So let me – let me cover some of these security issues in greater detail. The South China Sea, I would say, is going to be the most contentious issue between President Xi and Obama. And in the intensive diplomatic engagements in the run-up to this visit, there has really been no narrowing of the differences at all. The United States continues to press – and I believe that Secretary of Defense Carter reiterated this just last week – for a halt to land reclamation, construction, militarization. The Chinese insist that their actions are legal, reasonable and justifiable. They see the United States as interfering in this issue. They say that the U.S. is taking sides on the sovereignty dispute. Chinese I talked to, both civilian and military, say that they have invested very heavily in these artificial islands and they are going to complete their plans. The only thing that is potentially up for discussion later on will be about how – what kind of deployments in terms of military assets the Chinese are going to put on the islands.

As you may have seen in our Asia Maritime Transparency Initiative – and Mike referred to now that they're building four airfields – in addition, we see that the Chinese continue dredging, even though they promised at first in June, and then they said in early August it had completely stopped. But we do see dredgers continue to widen the mouth of harbors and to dig sand.

This, I think, is an area where I agree with Chris. I think that the U.S. so far has not used a lot of pressure on the Chinese. The Chinese think they have quite a bit of running room. You may have seen at the hearing last week, when PACOM Commander Admiral Harry Harris said that the United States has not yet conducted freedom of navigation operations inside 12 nautical miles of any prior submerged reefs, and I think the Chinese were quite relieved but maybe even a little bit surprised, since it had been reported in early May that the U.S. was considering conducting such operations. So this is an area where I think that we're going to have a pretty frank conversation between our presidents, but no progress.

On cyber, there have been, obviously, intense discussions in recent weeks, first with National Security Adviser Susan Rice's visit to Beijing and then the visit by the public security minister, Meng Jianzhu, here. My understanding is that they are likely to announce a new dialogue mechanism for cyber. The one that had been created was headed by our cyber coordinator at State and his counterpart at the Chinese Foreign Ministry. They are likely to elevate that to a higher level. The existing mechanism has essentially been suspended since the United States indicted five PLA officers. So that is one outcome that I have heard.

And then they are likely to reach a bilateral agreement that endorses the principles of the code of conduct that were adopted recently by the working group at the U.N., essentially not to target each other or damage each other's critical infrastructure, as Chris mentioned.

In addition to this, there may be some cooperation on – enhanced cooperation on CERT-to-CERT or computer emergency response teams and incidents investigation. So if there is hacking, there may be an agreement to establish some hotline so that they can get in touch with each other more quickly. Again, as we've seen with any kind of hotlines, it's always a big question mark as to whether these are – these are effective.

The U.S. is encouraging China to impose penalties on Chinese companies that steal or otherwise illegally acquire intellectual property. And one of the statements that Meng Jianzhu said that was reported by the Chinese press was that anyone who conducts such acts in the Chinese territory violates China's laws and will be subject to legal liability. So essentially the U.S. would like China to prosecute companies for cybertheft. There's this notion in China that you kill the chickens to scare the monkey – you know, you just – you at least signal that you're going to do something about this, and then hopefully other firms get in line. I think it remains very much to be seen whether the Chinese will do this. I'm personally not very optimistic.

Since very early on in the Obama administration, the president has tried to persuade the Chinese of the distinction between use of cyber for stealing intellectual property and for traditional espionage purposes, and this is something that the Chinese have not accepted. So sanctions are still on the table. They remain part of the U.S. toolbox, I think, for future management of cyber hacking. Hard to see – to predict at this point whether they will be imposed.

And then, finally, on the mil-mil agreements, as Mike mentioned, there will be – there will actually be two appendices. Last year, when Obama visited China, there were two MOUs that were signed. One was one rules of behavior, and the annex then signed was on surface naval vessels – so essentially how they would communicate with each other to ensure operational safety. This one is on air-to-air encounters, and it will draw from multilateral civilian air agreements because the CUES that Mike mentioned really just applies to military vessels. So this – and there is nothing that applies to military aircraft. So be – drawing from the Chicago Convention and ICAO regs. The other MOU that was signed was on notification of military – major military activities, and there will be an annex to that as well. So, essentially, this is aimed at avoiding accidents, making behavior more predictable, not solving any of the problems, as Mike said.

There will also be an announcement of increased cooperation between Coast Guards, and that will be significant if it, I think, affects not just the U.S. and Chinese Coast Guard, but can be extended to other coast guards in the region.

And very finally, there will be probably either a joint statement or separate unilateral statements, and I think they're still working on those. And that will really emphasize non-traditional security areas of cooperation – development cooperation, global health/infectious disease response, and disaster response. And there are some deliverables in those areas that are on the agenda in addition to some incremental progress on climate change.

Thank you.

H. ANDREW SCHWARTZ: Before Dr. – excuse me, before Dr. Kennedy begins, my colleagues have referred to our Asia Maritime Transparency Initiative, which many of you reported on last week. This is an interactive website that we have developed in-house here at CSIS which is the housing of all of our work on the South and East China Sea, including the now-famous images that we've captured – satellite images – of island building in the South China Sea. The URL for that is [amti.csis.org](http://amti.csis.org). And it's a microsite off of CSIS's website. And you can find a lot of information there that might be helpful to you.

With that, I'll turn to Dr. Kennedy.

SCOTT KENNEDY: Good morning. Thanks, everybody, for coming. Let me say a few things about the economic side of the relationship and what's in store for the summit, and then let you ask away.

The economic relationship has been the ballast of ties. Since the 1980s, trade has grown rapidly, and last year was almost 600 billion (dollars). This year will be a little bit less because of the slowdown in the Chinese economy, but nevertheless, U.S. exports last year were 124 billion (dollars) to China, over 2 billion (dollars) in investment in China and, of course, growing Chinese investment in the United States. And at the individual

level, you know, China is deeply embedded in global supply chains, all the products that we use every day, including iPhones and everything else. Some part of that is assembled or built or manufactured in China. And those ties are critical.

Yet, nevertheless, the perception to some extent is true, is that this ballast is becoming much more of a problem and a source of tension, perhaps not as significant a source of tension as on the security front, but nevertheless the trend lines aren't pointing in a positive direction. There was – I'll just tell you a short story of an American company in the high tech sector for – trying to do business with China, like all of them running into problems. And told me quite cynically, hey, you know what? We're happy with this.

We're having difficulty accessing the Chinese market, they're trying rip off our technology, but look what this is doing for them? They can't innovate because of this. They're not going to beat us on – where we're very good. And we just need to wait them out. That company no longer exists. (Laughter.) So clearly that strategy isn't the right strategy for most companies. And they're all trying – you know, they're all now having to face the music of really what are we going to do with the Chinese. And so the – you know, the U.S. industry is not the lobbyist for sweeping everything under the rug, like they used to be.

Let me just make three points about the – you know, the Chinese – direction of the Chinese economy, the trajectory of economic reform in China and, you know, the top issues for the summit. The first is that, obviously, the Chinese economy has slowed down quite a bit. It's continuing to slow. The main reason it's slowed too is the massive overinvestment in real estate and infrastructure following the global financial crisis, which supported global growth for a while, but now there's just too much debt there. The second is the anti-corruption campaign that Chis alluded to, which has made every official at the central government level and local governments extremely hesitant to approve investment projects. Both of those things have dragged down growth quite a bit.

Of course, the slowdown in the global economy, particularly in Europe, hasn't had a positive effect either, but really these are domestically-induced problems that have generated slowing growth. Some have said China is in the middle of a recession, though – but I think maybe in certain types of sectors, like infrastructure. Overall, the growth is somewhere in the reality of 5 to 6 percent this year, although the Chinese are saying it's closer to seven. The IMF says it's going to be at 6.8 this year, 6.3 the next. Regardless of which number you pick, it's slowing and there's no prospects for rapid pickup in the year ahead or so, as long as the Obama administration is in office.

And that's obviously a big challenge, because as the economy slows in China, all of the stuff that foreign companies and American companies were willing to put up with, they're less willing to put up with because it's affecting their bottom lines. And so we're seeing a lot more complaining and angst from the American industry, not only because Chinese industrial policy is more aggressive, but also just sales are down.

In terms of the direction of Chinese economic policy, it does look in a variety of ways like economic reforms aren't going in the direction which we thought they were. And some of those concerns that Chris had alluded to, I think they're genuine. And Xi Jinping looks more like a fair-weather reformer than his predecessors. That was indicated not only by the intervention in the stock market this year, but by the push – the intervention in the stock market last year, which pushed it up 100 percent, not just the intervention that we're all familiar with to keep it from falling off the cliff.

Second, invention related to the renminbi. They tried to unpeg the renminbi from the dollar starting on August 11<sup>th</sup>. That went sideways, and so now they've reinstated a peg – again, somewhere around 6.35 to the dollar – and they intervene every day in currency markets to keep it around there. They announced early last week a reform package for state-owned enterprises. And this was the – this is “reform,” in quote marks. This is the least reform-handed type of approach they could have announced, emphasizing essentially – strengthening the control of the government and the party over state-owned enterprises, mergers of state-owned enterprises, greater control of management, very little in terms of greater market access, improved competition from foreign and private companies, really not what one would have wanted to lead into the summit with.

And thirdly, there's now extensive discussions within China about how to move the economy and get it growing again, and therefore the primary talk is about what type of stimulus they are going to bring forward. That is going to include probably some combination of reducing interest rates further, greater spending, perhaps via local governments. They had a debt swap program this year. It's already been about 2 trillion renminbi. That could go up to 3, 3 ½ trillion renminbi. Some central government big investment programs, and then lastly the – another stimulus that they're talking about quietly, because they don't want anyone here to hear, is about devaluation.

The renminbi pegged to the U.S. dollar ran up. As the dollar increased – appreciated by fiat, Chinese growth slowed down. Those two lines going in opposite directions means that the renminbi is overvalued. It should depreciate. It should go down. And when they removed the peg on April 11<sup>th</sup>, it went – started to go in that direction, of course. So from a macroeconomic view, it should depreciate some, perhaps somewhere around seven to the dollar. But we know the politics point in the opposite direction. Letting it go in that direction, either by pulling the peg and letting the market find that point or a one-time devaluation would make this town go nuts. So they are definitely not going to do it right now, but at some point down the road they're going to have to face the macroeconomic music of this problem, because that's – the currency is not valued appropriately right now. It's overvalued, actually.

For the visit, I think the number-one – on economic issues the number-one ask for the U.S. actually isn't market access to China, reduced barriers, although they have those, it's actually just clarity. What's going on? What is your policy with regard to the financial markets, the renminbi? What is your plan going forward with regard to the 13<sup>th</sup>

five-year plan? China still has five-year plans, if you can believe it in this day in age. Where is this economy going? Can you reassure us that you all know what you're doing?

At the G-20 meeting of financial minister in Ankara about nine days ago or so, the Chinese Central Bank governor and finance minister tried to reassure everybody that reform was going forward and they just had this minor blip of a loss of 40 percent of their stock market's value. Most finance ministers and our folks where – said, thank you very much. That makes us feel better. The one person who was honest there was the Japanese Foreign Minister Taro Aso, who said this dog won't fly, or to say you've got a pig, you put lipstick on the pig, and it's still a pig. I don't think he actually used that phrase, so I'm paraphrasing. (Laughter.)

There's going to be some – on cyber – the cyber side of the econ is China's policies to have what they call secure and controllable technologies, which means domestic technologies from politically connected firms that they can count on. That doesn't mean our firms. One example of that is requiring that companies that have servers in China, server farms, that those servers are in China not outside. So if you're IBM, Amazon, Walmart, they want you to have your servers in China. Now, they're much easier to monitor if they're in China. That's the obvious reason for that. So that's obviously something that ought to be raised.

Finally the one issue that won't be raised that is the big elephant in the room – China's already usually the big elephant in the room – but the most important economic issue that may be discussed on the sidelines but really is most important for the United States is TPP. The U.S. wants to get TPP done. China's not one of the 12 negotiating parties. TPP is extremely important for setting rules of the road for a global economy in the 21<sup>st</sup> century, which is definitely the Obama administration's number-one economic priority for the rest of their – for the rest of the administration and with regard to Asia. And if it's adopted and eventually rolled out, it will give the U.S. much greater leverage vis-à-vis China on some of the economic issues that I've already touched upon. I'll stop there.

MR. SCHWARTZ: Great. We're going to open it up to questions. If you could use a microphone that's nearby you and identify your name and your news organization, that'd be very, very helpful for our transcript. We will be sending out a transcript later today. You'll get that in your inbox directly from me. And with that, let's start with Mr. Condon.

Q: George Condon with National Journal.

I'm still trying to deal with the killed chickens and flying dogs and scared monkeys – (laughter) – but the – two questions, one narrow and one general. The narrow one is, are the Chinese officials paying any attention to what the Republicans are saying about them in the debate, and are they concerned about it? And the broader question is, the state of the relationship – going back to Reagan's trip in 1984, I can't think of a summit that had more friction in the buildup. We can't even agree how to celebrate the

end of World War II. I mean, is there a potential for this summit to really go off the tracks?

MR. JOHNSON: I'll take a stab at those and then welcome comments from my colleagues.

On the first question as to whether they're paying attention, they are paying attention. But I think that they also – it's sort of a mixed blessing. On the one hand, they've become more sophisticated in their understanding our political process. You know, 20 years ago they would have saw such comments and said, oh my goodness, the whole relationship's going in a very negative direction. Now they're able to apply a filter, you know, to the politics. And so that's somewhat reassuring.

I guess what is interesting, and I think we are seeing some developing awareness on their part of this, is that they have watched themselves just, I would argue, since the spring – I mean, in a very few number of months – watched themselves go from what I would say was a non-issue in the 2016 U.S. presidential election, to something of an issue. You know, they're not going to be the issue, because that's going to be ISIS and Russia and, you know, et cetera. But they don't want to be an issue at all. You know, their position is always we don't want to be a political football in U.S. political contests. And so the fact that they are something of an issue is obviously of concern.

Likewise, I mentioned in my opening remarks, you know, they may not necessarily see much value in investing in the administration, but hopefully they see value in investing with a visit in the relationship itself. And one of the reasons they should want to do that is to smooth the glide path to whatever comes next, which they correctly assess, I think – whether it's a Democrat administration or a Republican administration – is probably going to be a little tougher. You know, historically – and Mike knows this very well from his time in office – you know, new administrations tend to start out bumpy with the Chinese. In fact, the Obama administration was the opposite. They started off pretty good, and then have moved toward bumpy. (Laughs.) So the next administration I think is going to tilt back the other direction.

And then, you know, just in terms of the – what's the potential for it to blow up? I don't think so. I mean, I think the – you know, the administration has been very clear in conveying to the Chinese, look, we're going to treat your leader with due respect. You know, he's not going to be embarrassed, within our control. Presumably they'll play the correct national anthem this time and won't allow Falun Gong guys to go running across the White House lawn and so on. So it's probably going to be a more controlled visit from that point of view. You know, the potential that it – what I think all of us have been telling our Chinese counterparts is that, you know, the journalistic community is already sort of default-setting, you know, ready to have some pretty negative stories out there. So this comes back to what I mentioned earlier about Xi Jinping being the only one who can really change the narrative in the relationship.

And a second reason for him to invest in the relationship, along those lines, is to invest in doing some reputational rehabilitation work with the U.S. public, outside of, you know, the election issues, because my sense is that, you know, if you asked the average American – or tell the average American, China manipulates their currency, they would say, well, that sounds bad but I'm not really sure what that means. I'm not really sure what that means. Whereas, you know, if you have on the front page of The New York Times or The Washington Post, on the left a giant blue ocean field and on the right a reasonably sizable island, that's visceral, right? That's something people can pick up very easily.

Likewise with things like the OPM hack, there's a personal security element to that. You know, millions of social security numbers sitting in a Chinese computer that – I think that irritates Americans. We've seen with the recent Pew research data that, you know, the favorability rating with China, while not falling off a cliff, has been severely damaged. And so what is President Xi going to do in this trip to try to have that sort of moment, like Deng Xiaoping putting a cowboy hat on at a rodeo, you know, some years ago to humanize him. And we see that, you know, probably coming in the Seattle or New York portions of the visit.

I don't know if other's have –

MR. GREEN: Let me pick up on the election piece in particular. I don't think this summit is likely to go off the rails because there is no constituency within – there's no principle in the Cabinet – secretary of defense or others – who wants it to. And when these things go off the rails, it's because you have a divided U.S. government. And you don't. Everyone seems to be onboard with the idea of lowering expectations, deferring hard decisions, coming up with agreements on symptoms a little, but not causes, and just getting through this. And I think the exact same thing could be said on the Chinese side. And Congress will be unhappy with aspects of this. And the presidential candidates will make noise. But it's not going to go off the rails I don't think, unless there is a major crisis – collision of planes or something – in the middle of it.

Second thing is, public opinion. In the 2012 election, slightly – about half of Americans in polls like the Chicago Council on Global Affairs poll – about half said China's a partner, and – about 49 percent. Forty-eight percent said China's an adversary. Right now, the most recent polls from the Chicago Council, which polls American foreign policy and others, shows something like a third of Americans think China's a partner. So there has been a precipitous drop in American confidence in China and a concomitant rise in concerns about China as a threat.

China will be an issue in the campaign. I think Chris is right. It will likely fall third or fourth behind Russia, ISIS and Iran in foreign policy, but it will be a concern. I expect that the mainstream candidates – Hillary Clinton, Jeb Bush, Marco Rubio and others – will all suggest a tougher line on China. There is an argument in the region that I hear frequently from allies and partners that China is consolidating what I can now

because they expect a tougher administration in 2017. That's a hard thing to prove, but you frequently hear that hypothesis in Tokyo and Canberra and Delhi and elsewhere.

As Chris said, the pattern has been that when we have a bruising fight about China in the elections, the administration that comes to power actually has after an initial adjustment period a more stable and productive U.S.-China relationship. So the best example is Reagan, who promised in 1980 to normalize relations with Taiwan again, and eventually he was talked out of that. The Chinese sent their first senior official to the White House in 1982. And they said that's good, now we have to take care of the Taiwan Relations Act. And President Reagan said, you're right, we have to toughen it up. And from that point on, it was pretty clear where each side stood and it was a pretty – relatively productive relationship. So I don't worry too much about China getting battered about or criticism coming up in the presidential campaign, like some scholars do. But I think it's not a problem.

And then the final thing I'd say is, although China will be an issue, there are some self-correcting mechanisms. So Hillary Clinton in 2008 stood in front of the closed gates of a Pennsylvania, I think, it was steel mill or factory and blamed China. It was a complete air ball. It went nowhere. Governor Romney in 2012 was hitting on China currency, and he suddenly went quiet before the election, right around the time of the foreign policy debate. Why? Because polling showed that Ohio farmers were pissed because they were exporting a lot to China. And then this time Scott Walker's proposal to cancel the state visit played very badly in Iowa, with very prominent Republicans criticizing it because of agricultural exports. So there is a kind of a regulator within both camps' primaries on going too far for candidates who are serious about winning and governing. I can't speak for candidates who don't fit in that category. Thanks.

MR. SCHWARTZ: Bonnie, do you?

MS. GLASER: If I can just add one brief thought. The Chinese are generally confident that they will be able to maintain a relatively positive relationship with the Obama administration. And so your two questions are kind of connected, that is that they don't think the relationship's going to go off the rails. Both sides do want to have a positive summit. But their real concern is about the next administration.

And so they are watching these debates among the Republicans and listening to what these candidates have to say about them, and are quite concerned about the influence it may have on the next administration. They worry whoever is elected – Democrat or Republican – there will be a tougher policy toward China going forward. So this is what I think they're really concerned about, it's what comes next. And as a result, I think they're trying to use this one-year plus period in the Obama administration to get done in some areas as much as they can. In fact, I would argue this is what's going on in the artificial island-building in the South China Sea.

MR. SCHWARTZ: We're going to go right over here.

Q: Thank you. My name is Andrei Sitov. I'm with the Russian news agency TASS here in Washington, D.C. Thank you for holding the briefing. Very interesting, very helpful.

Obviously my interests are somewhat parochial. I do want to ask about Russia as a factor in the visit, in the relationship. But I also wanted to ask about the sanctions, because you in – Mr. Johnson suggested that the administration as painted itself into a corner, it would be seen as weak if it doesn't impose the sanctions. On the other hand, you all are expecting something on cyber to be a deliverable. So how do you square the circle? Two questions.

MR. JOHNSON: Sure. On the former, I would expect there to be some dialogue between the two presidents, whether it's in the informal dinner or in the formal meeting the next day, about the situation with Russia, relationship with Russia, how to think about that. My sense would be that President Xi certainly won't shy away from such a discussion, and would seek to both reassure President Obama that, you know, there's nothing to worry about with regard to a Russia-China axis, if you will, but also convey that, you know, the relationship between Beijing and Russia is steadily improving, is very close.

You know, there's a real debate in town about what this whole relationship means. You know, I think folks who have been looking at it a long time and whose experience watching the triangular relationship between the U.S., China and Russia is nested in the Cold War period, you know, tend to emphasize the serious constraints, if you will, that historical animosity and other factors have on the relationship. I accept all that and think it's all true. It does seem, however, that as the personal level the relationship between President Xi and Putin is very close. I think that's for a number of reasons.

First, they see in each other a self-confident person. And they're both self-confident in that regard. Two, they see in each other someone who is in command of their respective systems. And three, I think there is definitely something to this whole notion of seeing the prospect of color revolutions, for lack of a better term, that pose a risk to the respective systems that they have set up and are defending.

On the cyber sanctions issue, yes, I think that the issue is, is this agreement, if that's what we wind up with, about, you know, non-targeting of mutual critical infrastructure, is that enough, you know, to dilute the pressure for the sanctions? And I think, you know, as Bonnie suggested as well, you know, if the emphasis on other forms of cooperation in that space is solely about what you might call cybercrime, rather than cyberespionage or economic espionage in particular, that may be difficult. The other point is that it's difficult to sort of, you know, let all this be aired, that your intent is to levy these sanctions, and then not follow through, unless you get something really solid, you know, in terms of the agreement. So we'll have to see what comes out.

MS. GLASER: I would guess that the next time that the U.S. has some good evidence that a Chinese company has stolen something from an American company, we're going to present it to them. And if the Chinese do not prosecute that company, then you will see sanctions imposed. And so I think that's the way that's going to go.

I've been talking with Chinese experts on – beginning with the Soviet Union in this, since the early '80s. And recently, really in the last several years, many Chinese experts have probed, I think, me and others about the extent to which the United States is really worried about China's cooperation with Russia, and tried to seek to gain leverage through it. Frankly, I think that's just a non-starter. There are clearly a few areas where there is good cooperation between China and Russia. And I agree with Chris that there's a good relationship between President Putin and President Xi Jinping. But I also think that there are inherent areas of competition and potential conflict of interests. So this is not something that I think the U.S. has a great deal of concern about. And, as you know, there's a long, long list of issues to be discussed between President Obama and Xi Jinping. My guess is actually Russia's not going to dominate any of these – any of these discussions.

MR. SCHWARTZ: Let's go over here to Geoff Dyer.

Q: Geoff Dyer from the Financial Times. It's a question for any of you.

I think Chris talked about how the stock market crash has affected Xi's popularity at home. I wonder if you could talk about the sort of broader Washington view of Xi. I mean, he was seen initially as someone who could – you could do business with, a sort of nationalist, but also a reformer. But you've had questions about economic reforms. You have all these questions about this sort of opaque management style, no one's quite sure who he's talking to at home, and broader political crackdowns at home as well. So is Washington reevaluating whether it thinks it can get as much out of Xi as it had thought a while ago?

MR. JOHNSON: Yeah, I just – I'd say that I think there is something of a reevaluation. I think it's from the perspective of perhaps being somewhat surprised at what he's done with the accumulation, you know, of power. I think there's been a – there was a sense initially that this power accumulation is a good thing because he's going to use it to drive reform, you know, et cetera, and that he's not a megalomaniac like Chairman Mao, you know, et cetera. And I think that part is still very much true. He's a pragmatist, and I think that's true.

The concerns I think come from areas like, you know, suddenly human rights is sort of back on the agenda, you know, in the bilateral relationship in a way it hasn't been really for most of the administration. But it's a different kind of human rights. It's not the traditional dissident, you know, internet freedom, that kind of stuff, although that is a component. It's more about this stuff related to business that Scott was raising – you know, the national security law and its provisions for securing controllable technologies, the foreign NGO, nongovernmental organization law, which is very comprehensive and

touched on such a wide swath of U.S. interests – chambers of commerce, universities, traditional NGOs, you name it – that there’s a lot of pressure, you know, on the administration to push back on this, to get the Chinese to change it.

I mean, you have a situation with that law where a couple of the sort of principles are very troubling, you know, with regard to extraterritoriality. So you know, if – you know, say, take Yale University, for example. They have a presence in China. If in New Haven they choose to host a dissident of the Dalai Lama or something like that, technically under this law the people in China would be subject to arrest. So, you know, these are real concerns that folks have about these law.

And then I think the other piece is what I mentioned earlier, which is this, you know, great tolerance for risk that we see with President Xi. And the challenge that comes out of that for U.S. policymakers is that at the same time there is a greater challenge – tolerance for risk, the decision-making cycle is potentially faster, and more opaque at the same time. And so what you might call traditional indicators and warning of trouble is substantially reduced in that sort of a setting.

MR. GREEN: Just to put an exclamation point of what Chris said: This is not the U.S.-China relationship that senior Obama officials expected working on Asia in 2009. And this is not the U.S.-China relationship that the new crew of national security officials beginning in 2013 expected, for all the reason Chris has said. And the assumptions that many people had, that cooperation on transnational threats like climate change would ameliorate problems in geopolitical arenas was wrong. The assumptions that China would be slowed by the reputational damage it did to itself in Asia was wrong.

So a lot of the assumptions about U.S.-China relations that animated policy in this town in 2009 and then when the new crew came into power in 2013 have just been proven wrong. And so I think there has been a shift. And as Chris has pointed out, in the person or the assessment of Xi Jinping as a leader, a strong leader who would help consolidate this new cooperation economic reform, has turned out to be a strong leader who does what he wants no matter how good our talking points are.

MS. GLASER: I would highlight three reasons why it is difficult for the administration to get Xi Jinping to compromise on issues at this particular juncture in time, and just briefly. One is Xi Jinping’s confidence in his agenda, his determination to rejuvenate the Chinese nation, his emphasis on sovereignty, which makes maritime issues very difficult. The second is China’s economic problems, which Scott has talked about in detail. And the third is the decision making in China. It is difficult for the Obama administration to convey concerns and its expectations to the highest levels in China.

And I was quite impressed when I was in China this past week listening to people, both on the American side and on the Chinese side, trying to figure out what channels are actually working to get messages to Xi Jinping. And we have, you know, lengthy conversation here, the strategic and economic dialogue in June, and we’re talking to the

state councilor and just not really sure that these messages are getting conveyed up to Xi Jinping. So I think these are three really difficult challenges for the administration.

MR. SCHWARTZ: Right over here.

Q: Mike Dorning from Bloomberg News.

I just had two questions. One, sort of a bottom-line question: U.S. businesses out of this. It sounds like from what you're saying in terms of cybertheft, intellectual property, market access, the short answer is they're going to get nothing, nothing's going to change out of this summit. I was just wondering if there's any likely actual real-world change that would affect what actually goes on in the world in terms of cybertheft and U.S. business and market access. And then just a more narrow question, on the reserve currency question, do you expect that to come up in these talks? Do you have a sense that the U.S. is going to use that as a leverage point, or just say we're going to just quash this in November at this point, so forget about it?

MR. KENNEDY: The short answer to your first question is yes. I don't expect anything of substance to be resolved on cyber that is of direct interest to U.S. companies. I think there'll be talking points and a wave of the hand. And since Xi Jinping will be in Seattle at the meeting – or the – I don't know if he's going to be in the cyber – the IT – the high tech meeting. He will? Then I don't expect the American companies to be complaining in front of him, actually quite the opposite, right? (Laughter.) So he's going to come to Washington and he'll say, oh, President Obama, I just met with your leading companies and things went splendidly. I don't – it's a sunny day. I don't expect that there are any problems. To which President Obama should just reply, that's not what they tell me. So I don't expect a lot on that front. You know, China's still a growth market, even if it's slowing – you know, relative to where it was.

I also don't expect anything on the U.S.-China Bilateral Investment Treaty, zip, expect that – to acknowledge that they just exchanged the second drafts of their proposals and that the negotiators should return to their hard work. But there will be – the chances for that are below zero. There's not going to be anything seriously announced, and I don't think anything before then because, one, Xi Jinping, who personally wants the BIT, isn't willing to do the hard work to get there. And from the U.S. side, there's some concessions that the U.S. doesn't want to make. And in addition, since TPP is top priority one, two and three on the econ side, they don't want to give potential opponents of TPP any ammo and putting – agreeing to a BIT and sending that up to Capitol Hill would be some ammo.

On the renminbi's effort – the Chinese effort to have the renminbi included in the IMF's special drawing rights basket of currencies, I think actually the story there is a little – I'd read that differently. It is one area where the Chinese have continued to make some progress on financial economic reforms, domestically with liberalizing interest rates, deposit insurance, opening the capital accounts somewhat, and trying – although haltingly, as we've seen with unpegging the renminbi to the dollar which is important for

reducing the gap between the onshore rate of the renminbi in China and the offshore rate and making it so that central banks and other can hedge more easily with the renminbi, which is a critical sort of technical issue to be in the SDR basket.

So the Chinese have been continuing to make progress on those reforms. And the administration has continued to encourage that at each step of the way. Secretary Lew, who is the authoritative voice on this, has continued to say as long as the Chinese move in that direction, they ought to – when the IMF executive board meets in November, they ought to look favorably on the process, whether or not the U.S. will vote or – and China will get to 70 percent, isn't a slam dunk, to say the least.

But I think there is something where the U.S. could show some amount of leadership on this because, one, they've gotten some reforms out of the Chinese on this. Two, it shows – it gets the Chinese to the center of the system, to the existing system, and makes them more committed to that system. And three, we have to give up very little for that. Being in the SDR basket is not very important. It's not the financial-world equivalent of the U.N. security perm five. And so because it's not super important, because we've gotten some reforms out of it that are helpful, I think the administration probably is thinking that it's something that's still within the ballpark and they're not going to necessarily turn away.

MR. JOHNSON: I'll just throw in one point to put an exclamation point on the cyber thing. I mean, I think for the U.S. firms, the Chinese approach on this one is the meeting is the message. So the session he's going to have with the ICT firms in Seattle, you know, it's actually been an interesting dance between the hosts – or, the U.S. side and the Chinese as to who was going to host whom. It turns out now that the Chinese are actually the hosts. And so, you know, it's going to be designed to provide some reassurance. And I think Scott's absolutely right, you know, that the purpose is to allow President Xi then to come into his formal meetings with the president and sort of say, see, this is all fine. What are you complaining about?

And then just quickly on SDR, you know, my own sense is in fact we may be less of a problem that the IMF themselves now. My sense is, you know, they initially came out way too rosy on the prospect of having the Chinese in, then they put out a report that suggested, well, maybe you're not quite ready, which precipitated the Chinese to devalue, you know, under the guise of this sort of market mechanism thing. And the Central Bank governor in China, Zhou Xiaochuan has a lot of his personal sort of influence invested in this process.

And so it's the IMF now that seems to, I think, be a little more cautious. They are going to support it, would be my sense. And the big story, as Scott suggests, will not be whether they're in the basket or not, it's that if they are admitted they will have a much larger share, I think, than people expect – larger than the yen, larger than the British pound, most likely. And that's something that has to be managed perceptually, because there will be some when that is revealed who will say, oh my goodness, they're taking over the global financial system. So something to be mindful of.

MR. SCHWARTZ: This may be an unknown, but I just want to dive a little deeper into the cyber. Since the Chinese have been called out for allegedly hacking into U.S. companies, there hasn't really been an easing. And I think that's part of your question. Do you see as a result of this summit, or as an ongoing dialogue, some easing of the hackings going on into U.S. companies?

MR. GREEN: The answer is no. You can say if you disagree. But I want to make a larger point and then I'll turn it to Chris. And the larger – the larger challenge, I think, underlying the summit with respect to cyber, South China Sea, the new national security law and law on NGOs. The larger challenge, the harder question that the administration's deferring on is, if the Chinese behavior continues and the most we can get are important but essentially Band-Aid cures for some of the symptoms, at what point does the U.S. have to consider imposing costs? And that's something we've done incrementally in small ways over the last 20 years. You know, in small ways.

But now we're at the point where we're reaching diminishing returns, or worse, in terms of the current approach. And I do not expect the administration to impose costs. There may be some freedom of navigation operations after the summit. There may be some announcement of economic sanctions after the summit, maybe. But they've decided to defer them in order to get, it appears, some of these agreements on treating symptoms, like air-to-air, Coast Guard. And that, as Chris, I think, is suggesting, is a little bit of a trap because you don't want to break those once you've got them.

And in this sense, when you asked earlier about the presidential election, ultimately this may be the biggest effect on the presidential election of this summit, not the debate but what the transition teams and the foreign policy experts around the mainstream candidates – and I would include Clinton, Bush, Rubio and people like that – what people start deciding has to be our China strategy starting in 2017. And some of us have made this point to our friends in the Chinese foreign ministry.

You may get through the summit, but you're imprinting how the next administration geopolitically and strategically thinks about dealing with China. And we may not see the effects of this summit for a year or two because this underlying fundamental question – as Chris said, Xi Jinping has demonstrated a higher risk tolerance across the board than we expected. And do we need to, in effect, demonstrate a higher risk tolerance on our side? I don't see that happening in this summit or in the next year or two. That's going to be the – that's going to be the really hard question for the next administration.

MR. JOHNSON: Just two quick points. I think first, probably with regard to cyber particularly, there's a real – I think there's – we have to watch this, because there's two – I think from the Chinese perspective there's two poles here. On the one hand, what is interesting about the visit of the State Councilor Meng Jianzhu to the U.S. is that this is the first time they've appear, although only in a cybercrime, you know, context, to admit

that at least some of this stuff is emanating from China, right? And it's like an alcoholic, you know? First step is admitting you have a problem, right? So that is interesting.

And as Bonnie pointed out, the administration's going to be super-focused on the issue of, you know, when we have evidence and we go to them, you know, on this, what are they going to do? The countervailing piece, and I think this is really important and probably will win the day just because that's how they behave, is that the challenge is that all of the incentives for the Chinese to double down on cyber economic espionage are going in the wrong direction, because what we see economically is that the old growth model of, you know, export-led, heavy investments that are – it's completely out of gas. The time horizon on which they believe they have to make the switch and move up the value chain rapidly has totally turned around on them. It's narrowed significantly.

And the problem is that the party has unfortunately discovered that you cannot mandate innovation. And so they're having difficulty in that area. And yet, Xi Jinping, for the reasons we've been discussing, unlike his predecessors, when he says get this done, he means it. You know, they'll fire people in the state-owned enterprises and so on if they don't. And so a lot of the pressure to do more in that area is only going up, I think. So those are the contrasting forces.

MR. SCHWARTZ: I can't see back here, but is there anyone on this side – all the way down in the back, yeah.

Q: Thanks very much. Andrew (sp), BTFP (ph).

I wanted to kind of dig down a little bit on something Michael said just now. If there isn't substantial movement at this summit, what impact does that have, you know, in the next two to three years on things like the South China Sea? I mean, it seems very obvious that the administration doesn't want to escalate things. So does that mean that China, you know, moves radars in, moves missile capabilities into these islands, these atolls?

MS. GLASER: The Chinese already have some significant capabilities that they are building. And in their plans, we see evidence of much more than just runways. Admiral Harris has talked about hangars for fighters, they may rotate fighters out, they could declare an air defense identification zone and have capability to try to enforce it. Undoubtedly will have electronic warfare countermeasures, capabilities. They are probably considering the possibility of having anti-ship missiles, surface-to-air missiles, which would be very, I think, destabilizing for the region.

The only possibility that the U.S. has, I think, for dealing with the Chinese on this is to try and cap militarization of these islands. The Chinese will not agree to, you know, freeze, halt things in place. And there has been an effort on the – in the Obama administration to also talk to other claimants, particularly Vietnam, to see if they could cap some capabilities that would be put in there. But it's going to be very challenging, I

think, for the U.S. military if the Chinese do put missiles in there and begin to operate things like fighters and bombers off of those airstrips.

In peacetime, the challenges are, I think, especially great in terms of even just law enforcement vessels interfering with energy exploration, fishing – which is already going on, but they will be more present and more capable of interfering. But eventually, if they continue to build out these islands, we're looking at the potential for the Chinese to have control over a large swath of sea in this Nine-Dash Line as well as airspace.

MR. GREEN: When the 1995-96 Taiwan crisis happened, because of political developments on Taiwan, the PLA did a series of tests bracketing the waters around Taiwan with ballistic missile shots. The American thinking was we can send – and we did – two carrier battle groups up through that area at a leisurely pace, and that if things got more dangerous we could go through the South China Sea – that China would be, in effect, outflanked, and couldn't handle a Taiwan crisis. Now I think it's fair to say the thinking is the opposite. We're going to be stressed preventing the PLA from using the South China Sea against us and our allies if we have a crisis in Taiwan or the Senkakus.

So we have, in the current issue of AMTI – [amti.csis.org](http://amti.csis.org) – Bonnie and Chris and Zack Cooper and I have an analysis –

MR. SCHWARTZ: He just invented this site, so it's – (laughter) – he's the brains behind the site, we do the tech.

MR. GREEN: But we have some essays, you know, looking at what the implications are, not just for peacetime but for warfighting scenarios. And it potentially is quite significant.

I would not expect that there will be an agreement in this summit not to militarize. And even if there is some superficial agreement, they're building four 3,000-meter runways and have the capacity at – you know, at leisure to send in fighters and stuff when they want. So this is a – it's a pretty significant challenge.

MR. JOHNSON: Yeah. In fact, I think the challenge for the administration is, to a large degree, these – they're already militarized. I mean, you know, depending on how you define “militarized.”

And then the second piece of that is, if you tell them don't militarize and, as Bonnie suggests, they put the stuff on there anyway, well, then what do you do?

And then just to cap Mike's point, you know, I was working very, very closely on the '95-'96 Taiwan Strait crisis. You know, as challenging as that period was, the PLA's activities, it was largely a made-for-TV movie, you know? They wanted to look big and scary. They shot these very inaccurate missiles off, you know, and so on. The PLA of today has much more capability, much more lethality. And particularly, as Bonnie pointed out, the way they're configuring this stuff in the South China Sea, it does create

serious problems for our ability to operate. And it also, I think, puts tremendous pressure on the administration, on only from the Pentagon but across the board, if they do, you know, move ahead with the militarization steps to do the 12 nautical mile incursions, you know, all of this sort of stuff. And that doesn't end well, I don't think. You know, that gets into a tit-for-tat that's pretty ugly.

MR. SCHWARTZ: Straight in the back, right here.

Q: Hi. John Hudson with Foreign Policy magazine.

A few months ago, senior U.S. officials told The New York Times that in response to China's cyberespionage that the U.S. is now considering offensive cyber operations that would target the Great Firewall of China, Beijing's online censorship regime. I haven't heard much about that lately. Do you think that was an empty threat? Or is that actually actively under consideration?

MR. JOHNSON: I mean, they did make the comment, so I think it is – I guess you could say it's one tool in the toolkit. You know, that's a great trick, but you can only do it once. You know, the – let's just say that if you're worried about retaliation, that would not be the wisest move.

MR. SCHWARTZ: Great. Mike, right here.

Q: (Off mic.) (Comes on mic.) Ah, OK. Mike Mosettig, PBS Online NewsHour.

For Mr. Kennedy, could you elaborate more on what you expect of these possible sideline talks on TPP? Because the administration has everything – basically, its whole pivot is riding on this. Otherwise, there's 500 Marines in Darwin. And since the Chinese aren't even in this – although they seem to be backing away from their idea that this is an element of containment – what are they going to talk about? I mean, the Chinese don't have any influence over the Canadians, the Malaysians and the Japanese in this final hump that they can't seem to get over.

MR. KENNEDY: Sure. That's a good question. I'll leave the other parts of the pivot to my colleagues. I think there is a little bit more going on, although that's the – (laughs) – a good one to mention.

Directly, I would say the Chinese perception about TPP has evolved over time from being – first of all, thinking it was entirely irrelevant; to then, once the U.S. started paying attention and wanted to use it as a vehicle in the wake of the Doha Round of the WTO negotiations breaking down in 2008, thinking it was an anti-China plan to economically contain China; to now, since the – since the Japanese joined and it looks like it's going to be completed, to see – to take a much more realistic, dispassionate view that they will – if it's done, they will at some point need to join TPP or have TPP be

expanded to the rest of the Asia-Pacific, or bring it to – back to the WTO and fully multilateralize it.

Some Chinese see it as a WTO-like instrument to potentially push forward reforms in areas that China has had a tough time dealing with – for example, with state-owned enterprises or intellectual property or the environment or government procurement. Of course, a lot of Chinese don't see it that way, but there is a mixed view on it.

I think, to the extent that it comes up on the side, it'll be simply President Obama's turn to reassure the Chinese side and Xi Jinping that this is not directed at China; in fact, we want the Chinese to be on a path to join it. And so I think that's the message.

Next year, China hosts the G-20 process. And so the Chinese are also thinking about what type of leadership role that they can have globally and step it from TPP to what they are calling an FTAP, a Free-Trade Area of the Asia-Pacific, to the G-20. I think they're going to try and draw a line through those things if TPP gets done. So you're right that it's not negotiating, it's basically keeping both sides informed for the – you know, for this week.

MR. GREEN: On the pivot, I won't spend a lot of time on it, but I will engage in shameless self-promotion.

So the Congress, in the 2015 NDAA, had the Pentagon commission an outside audit, basically a review of how the pivot or rebalance is going, and we're doing it at CSIS. And we'll have a version for the Pentagon to look at, and then we'll have a public version sometime in late October.

We've been traveling around the region talking to the military commands, talking to our allies. I would say the administration has elements of the pivot that are important right now. They've engaged Southeast Asia quite extensively and participated in the East Asia Summit and multilateral forums in Southeast Asia. That's proven necessary, but hardly sufficient.

The April summit here with Japanese Prime Minister Shinzo Abe was quite important in terms of new defense cooperation that will flow from Japan's reinterpretation of what's allowed under the pacifist constitution in Japan, and that legislation now has moved – is moving ahead in Japan. That helps. Harry Harris, the PACOM commander, everyone thinks is on this problem.

But there are shortcomings. The foreign minister finance – the amount we pay to help countries like the Philippines or others deal with this problem – is 1 percent of the total that we spend around the world. Ash Carter promised in Singapore it's going to go up to 450 million (dollars). They're going to add a new 450 million (dollars). It's now questionable whether that will happen. So there's a real resource problem.

There's a problem in terms of willpower, in the view of some allies. Why are you putting off freedom of navigation exercises? Why are you putting off demonstrations of American willpower?

But it is not completely beyond our ability to come up with a strategy to deal with this, and some of the key elements are in the pivot and are happening right now.

Q: Thank you for doing this. My name is Tanaka from NHK Japan, and my question is on law enforcement cooperation between U.S. and China.

And one Hong Kongese media has just reported U.S. and China government – Chinese government has agreed to extradite the wealthy Chinese businessman, Mr. Ling Wancheng. And how important is this issues for both countries? Yeah, thank you.

MR. JOHNSON: I think the issue of extradition is very important for both countries, probably more so right now for the Chinese for the following reason. This effort to repatriate what the Chinese call economic fugitives under the anticorruption campaign of Xi Jinping, a key facet of that is this effort to retrieve these people from overseas. The U.S. is the largest haven, if you will, for these folks, at least according to the list that the Chinese has put out – that the Chinese have put out, followed closely by Canada and Australia. And so it's not only important for each side, it's also important for our allies, as Mike alluded to, because obviously what we do in this space creates precedents that our allies will be pressured by the Chinese to sort of follow. And they don't have the throw weight, basically, that we do to be able to push back. So things like formal extradition treaties and so on become much more likely in those other two countries based on our own actions. So it is obviously important for the Chinese side.

You know, Mr. Ling is a unique case. There's been a lot of stuff circulating around about, you know, his position and so on. I don't – I don't know enough to comment.

But I would say this, that the risk in this kind of behavior – well, two things. One, historically, when these issues have come up, obviously at a lower level of importance because we didn't have the anticorruption campaign as a backdrop, the U.S. position traditionally had been to tell the Chinese "I don't think so" when they made these sort of requests, primarily because there's a concern that it creates a slippery slope. How do you keep – once you've sent one guy who may be a legitimate economic criminal back, how do you keep the Chinese system from coming to you on someone else and saying, oh, by the way, that person's an economic criminal, too, and here's the evidence, when you have no ability to validate or vet that information? That's a real risk.

My sense is that on the folks where it is become – has become public, they have been returned or will be returned to the Chinese, I see this actually as a quid for Mr. Meng's visit. You know, we're not going to give you a promise that we won't do the

sanctions on cyber, so here's something that we can give you. I do think it's a risk from the precedent that it sets, not only for our own folks but also for our allies and partners.

Q: Thank you for doing this. My name is Dong Quiyu (ph) with China the Real News Agency of Hong Kong.

President Obama seems to take the mil-to-mil relations between the two countries as his legacy of presidency. Could you please evaluate the state of the mil-to-mil relations between the two countries? What else could we expect, besides the agreement – the encounter agreement in the air?

And last week I read a report from The New York Times saying that the two countries may sign an agreement of no-first-use of the cyber weapon on key infrastructure. Do you believe this agreement may have any military implication? Thank you.

MS. GLASER: Well, I think we already talked about some of this earlier. I don't know if you came late.

But the mil-mil relationship has continued to evolve, I think, in what I would call this sort of narrow area of avoiding accident and creating greater predictability in the relationship. There's still an enormous amount of friction in the – in the mil-mil relationship. There's what I would call perfunctory discussion of issues like space, nuclear and cyber within the mil-mil lane.

But Xi Jinping, since he came to power, has been very committed to increasing the areas of cooperation between the two sides to essentially prevent an, you know, unwanted crisis or accident, and that's what we have seen in these two MOUs that were signed late last year. So we will see an annex on the air-to-air encounters this time, and there will be another annex on the notification of major military activities as well, which has now been renamed. This will pertain to enhancing the defense telephone link, or hotline, between the two militaries and how it's used – try to create greater predictability, systematization about how we use that particular telephone link.

So this is – this is an area – I don't know if I would say this is, you know, President Obama's legacy – (laughs) – but it is maybe a small sort of bright spot in the relationship. But it does not, in my view, indicate that there is a lot of common ground between our two militaries. There's obviously a lot of areas where we don't see eye to eye, where dialogue has not gone very far. Even talks on nuclear policy and doctrine haven't really been held since April of 2008. You know, we're talking the Second Artillery. So I would – I think this is an important area of the relationship, but I wouldn't exaggerate its importance.

Q: Thank you. David Ivanovich with Argus Media.

Speaking of Obama's legacy, he – Obama has needed the Chinese help on two main issues: Iran and climate. Both of those issues seem to be wrapping up, probably, by the end of the year. Now, Michael mentioned that the president will still be running foreign policy through 2016 into early 2017. If he's already got these two wins, would that give him more room to maybe push back against the Chinese a little more than he's been able to in the last few years?

MR. GREEN: I don't think so. The Chinese are important on Iran because of their seat in the Security Council and because of questions about Chinese investment. But now, with this agreement, I think the spigots are going to be wide open and there's not much that the president needs from China on Iran. I mean, once this – I don't – the snapback sanctions are not going to happen in the next two years, and that would be where he'd need Chinese help. So I don't see it there.

On climate change, the hopes for a big mega-agreement in Copenhagen in 2009 were killed largely by China and India, and the agreements now are more modest and useful. But does that mean that China will now cooperate more on these security issues? I don't think so. I think, from Beijing's perspective, it's the U.S. that's the demander. It's the U.S. that wants these things, not the other way around.

And the third one you didn't mention – because it's less in the news now – is North Korea. And actually, on that one I would say Beijing has been perhaps somewhat more helpful. The Chinese foreign minister two days ago called on North Korea not to do a launch of its Taepo Dong series missile in October, as the North seems to be indicating it will. That public statement was helpful. Xi Jinping has not had Kim Jong Un to Beijing, unlike Kim's father and grandfather. So on the diplomatic side, China's being a little bit more helpful. But the fundamentals haven't changed: China is not going to do anything to put significant pressure on Pyongyang or dissuade them from the current course they're on. They'll put a little bit of pressure to try to stop provocations like a test. So it's a – it's a, I'd say, slightly better cooperative relationship on North Korea, in large part because Kim Jong Un has been such a thorn in Xi Jinping's side. But not a fundamental strategic shift in China's approach.

MR. SCHWARTZ: OK, we have time for just two more questions. I'm going to – right here, please.

Q: Thank you. Paul Handley from AFP. A couple things.

One is, was there – is there any substance to the reports earlier that the U.S. – that the White House was not really happy with plans for Seattle, with Xi's plans on making speeches? And what's that – what was that about, the arrangements? There were some reports. I don't know whether there's – what's behind it.

The second thing is a smaller thing. How do they – on human rights and terror groups, how – is there – is there anything to discuss on designation of terror groups and

Chinese treatment of the Muslims in Xinjiang and their position that these are terrorist groups, especially in light of accusations of what happened in Bangkok?

MS. GLASER: I can start on that just very briefly.

Every conversation that the Obama administration has with the Chinese on counterterrorism issues, the Chinese do raise this issue of identifying additional groups and doing more to prevent the activities of the East Turkestan independence movement, known as ETIM. So this is – it's very much on the agenda. I think the Obama administration has wanted to broaden the conversation, actually, and talk about some of these other groups. They haven't had much success, as far as I know.

Chris may know more than I do, but I have not heard that the developments in Bangkok have changed that conversation very much. I think it's still very difficult for the Obama administration to find cause to be working that closely with the Chinese on countering some of these ETIM-related issues without some real evidence that this is something that the Chinese are not going to use against, you know, the Tibetans. So it's a complicated issue.

MR. JOHNSON: I would just say that this is always the – you know, I worked with Chinese security services on counterterrorism issues when I was in the government. You know, this is the challenge in working with them on these issues, is that they only see everything through the Uighur lens.

Take, for example, cooperation against ISIS. China has real interests in these areas where ISIS is operating in Iraq. They haven't been real helpful, you know, despite that, because they want some kind of a quid on the Uighur issue. So it's sort of a dead end.

On the Seattle piece, I hadn't heard that, so.

Q: Junko Tanaka from NHK. I have quick follow up on the previous question about South China Sea.

Dr. Green mentioned that the United States – Obama administration is a lesser risk-taker. But I think, considering all the impact of militarization of the South China Sea that you and Dr. Glaser mentioned, not taking action now is a huge risk, it seems like. So what is the reasoning or the risk they fear of not doing the freedom of navigation operation now, within the 12 nautical miles?

MR. GREEN: So the understandable or logical reason would – or explanation would be that they don't want to interfere with the summit, that they will get – they don't want to put at risk some of these agreements on avoiding accidents, and that they therefore should plant the seeds with these agreements that will hopefully grow into something that helps us manage the fundamental problem.

The less charitable argument is that the administration doesn't want any homework on Asia – that they – their primary foreign policy focus is Iran, that they're trying to make efforts vis-à-vis ISIS that are limited, vis-à-vis Ukraine that are limited, and that the foreign policy – national security team's job is to make foreign policy problems go away, not create new ones, particularly with a year and a half left in the administration and the focus on legacy around some of the early issues like climate change and health care reform and so forth.

So it's some combination of the two. There are some sort of political and diplomatic reasons to be cautious, but there – but I also think the administration is not looking to do a heavy lift in Asia. And if you are going to impose costs – if you're going to spend more money on defense, on partnership capacity building, if you're going to do freedom of navigation operations, you have to invest politically in ending sequestration, in getting funding and things like that, it has to be a priority. And I'm not – I think it is among the people who work this issue in the Defense, State Departments, NSC, but for the political level leadership in the White House I don't think this is how they want to be spending their last year and a half in office.

MS. GLASER: I completely agree with Mike. I would just add a couple of other points that I have heard from people in the administration.

One is there is some question about whether or not conducting freedom of navigation operations inside the territorial or 12 nautical miles around formerly submerged reefs is going to stop China's activities. So we want to get the Chinese to halt what they're doing. What is the best way to do that? And there are some people who really think we actually should be emphasizing diplomacy, this will undermine our ability to achieve our goal of getting them to stop, trying to shape and influence what they're doing there. So not everybody holds that view, but that is one view.

And then, secondly, there is some question about the legality of operating within those waters or the airspace when the status of a land feature is uncertain. So if you look at, for example, the Philippines case that it's taken to the international – the Permanent Court at The Hague, the Philippines claims that some of these land features were formerly submerged reefs. The United States thinks some of them were also submerged reefs, but they have a different list. There is no consensus on what was a formerly submerged reef. If a land feature was a rock before the Chinese built it out into an island, then it has the right to have a 12-nautical-mile territorial sea for whoever happens to have sovereignty or even just who is occupying it.

There are some legal questions that are also debated in the administration. It's a little hard to say whether or not those maybe are, perhaps for some people, a justification or reason for just not doing anything.

MR. SCHWARTZ: I'd like to thank everybody. This transcript will be available later today at [csis.org](http://csis.org). Visit our Asia Maritime Transparency Initiative at [amti.csis.org](http://amti.csis.org).

Thank you for coming. And if you have any questions for our experts this week, please contact me – [aschwartz@csis.org](mailto:aschwartz@csis.org) – or call my office, 202-775-3242. Thanks very much.

(END)