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Debate

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SPEAKERS

David Perdue

Senator, R-Georgia

INTRODUCTION

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Bonnie Glaser:

Good morning, everyone. I'm Bonnie Glaser. I'm director of the China Power Project here at CSIS. Thank you all for coming today. This is our fourth annual conference that we call China Power Debates. We're going to have a series of debates on different propositions about Chinese power. At CSIS, we are dedicated to promoting objective discussion and analysis about the implications of China's rise. We have a website many of you may be familiar with, ChinaPower.CSIS.org, which provides a data-driven approach to analyzing the development of Chinese power. And I want to take this opportunity to express my gratitude to the Carnegie Corporation of New York for its support of the China Power website and for our conference today.

So we're very privileged to have this morning for our keynote address Senator David Perdue. In many ways, Senator Perdue is the original political outsider. He grew up in Georgia. He worked his way through college at Georgia Tech. And then he spent four decades in business before being elected to the United States Senate in late 2014. And when Senator Perdue was elected, he was the only Fortune 500 CEO in Congress. Senator Perdue's involvement with China began decades ago, when he lived in Hong Kong. And at that time, he was directing Sara Lee's expansion into Asia. And as senator, he recently took over as chairman of the Sea Power Subcommittee of the Senate Armed Services Committee. And there he provides oversight and support for America's naval operations around the world, including in the Indo-Pacific region.

So it's my pleasure to introduce to you Senator David Perdue.

David Perdue:

Well, thank you, Bonnie. I just want to thank you and John Hamre for what you're doing here at CSIS. To attract this kind of audience and these kinds of speakers on this topic is, for what we're in right now, an extremely important exercise. So I want to thank you guys for organizing this and, frankly, for including me this morning.

When I look at the speakers today, and you guys are here early I hope you stay all day. When I look at the speakers who are going to debate some of these topics, I definitely feel like the underachiever. I'm the amateur in the group that will be talking to you today, but I have an experience in China that's pretty broad and it's fairly in depth in certain areas, but from a perspective. I'm a business guy, so I have that perspective. And in the last five years since I've been in Congress, I've been involved in foreign relations and armed services to the point that I've had opportunities to spend quite a few trips and meetings in China and in surrounding countries talking about the topic we're going to talk about today.

I think the key thing for us today is what's this relationship going to be between the economic leader of the 20th century and the potential economic leader of the 21st century in this transition period. What's the relationship going to be? What's their long-term objective? What do they want? What do we want? What are our objectives? I think these are things that we're being – that are being debated right now. And as we were talking about in the – in the room before we came out here, information abounds about that topic, about that question. And there's evidence on both sides of that argument that could – that you could make today to give you a perspective on how we're going to address that.

But from a political point of view, what I'm trying to do right now is make sure that we have the flexibility in America, anyway, to deal with a rising China. The first book that was written back in the '90s, I think, was "The Rise of China." There was a guy that had been in the news media and had been in Beijing for, I think, a decade or whatever, wrote that book. And I think personally, this is my personal opinion, that we sort of all got it wrong. You know, when Deng Xiaoping in the '80s said to get rich is glorious, we thought that, OK, this economic model would mature over time, it would change.

Now, there were some that were in the West that were naïve to think, well, as they become affluent, they'll become more like us. Well, that was arrogant and naïve. And we didn't – a lot of us didn't understand the long-term cultural history of the Han Chinese. And so today we have a new body of work being developed. And that's people who had one position back in the '80s, and '90s, and '70s, and now have – are beginning to have a different opinion. People like Michael Pillsbury. Even Henry Kissinger had a speech the other day. He's got a new book out, "On China," is the title. Hank Paulson has a new book. And even Newt Gingrich has weighed in on the subject here in the last couple of months.

So this is a topic that we're trying to wrestle with. And I think there are two basic options here. And I'm going to be – try to be very brief. I'd like to leave some time for a dialogue here. There are basically two options. If you listen to what they say, China – they quote Confucius and they quote Sun Tzu all the time. I'm talking about the leader – the leadership now. Seven percent of the population of China are members of the Communist Party. And many of their leadership actually believes some of the propaganda that they put out today. But what they say – they quote Confucius a lot.

And Confucius has one saying that I think is very telling about their transition right now. And that is that – Confucius said that just as there can't be two suns in the sky, there can't be two emperors on the Earth. And the word they use for emperor most of the time is Bà, and the tone they use means hegemon. So the question is, after 4,000 years of being the global hegemon now is it their rightful place to regain that? And there are some of them who believe that's actually where they're headed. And they talk about 2049 as a year that – by 2049, Xi Jinping says, we want a military second to none. Well, in the last two and a half years, last 30 months, they've actually put more ships in the water than they did in the prior 30 years. Let me say that again. In the last 30 months China has put – they've commissioned more hardware on the ocean, more ships and submarines, than they had done in the prior 30 years.

And they're not done yet. There's a pipeline being built there. And as Bonnie was talking earlier, and we can talk about this later, that builds up certain thing. I mean, when you build an infrastructure as fast as China has done – and I've seen it firsthand and many of you have as well – there's a maintenance, there's a sustainment issue and a sustainment cost that comes along with that. They're going to have that problem in the military. We have it right now ourselves. We have 292 ships in our military Navy. And we're struggling, frankly, with the base of maintenance facilities that we have to make that – to keep up with the required maintenance of that.

So we had two options in China. One, I think we can enter into another cold war, and we can slip into that very easily. In fact, I'm not sure we're not in the early days of that right now. A cold war with an arms race. And if we sit here and think that we're going to win the next arms race the way we won the last one – by not firing a bullet and by outspending our adversary – I personally, as a financial guy, I just don't see that happening if it's mano a mano. With 1.4 billion people – billion people, and we've got 300 and something. That's not the answer. And the answer is, even if that were the case what we've got to do is basically build our number-one asset. And that's our allies around the world.

The way I see the world today is this – and this is a very elementary perspective. And I apologize. But it's sometimes the simple solution might be the best. But the way I look at the world: There's state-controlled countries and there are self-determination countries. Now, there are different forms of self-determination. There's social democracies, like France. There's representative democracies, like ours. But in self-determination it's pretty clear, it's a monolithic model. And that is, a few people get power, and they dictate to the rest of the people what their – what life is going to be about. And I can back that up with several things that are going on in China today.

But what we have is a situation where when you look at those two types of countries in the world, the economic – I'm talking about on arms race now. Just from that perspective alone, this is what we're seeing. You've got the state-controlled I would argue there's less than \$20 trillion of economic power. Now, you can adjust per purchasing power parity, and I'll let you bump it up a little bit. But if you take the state of the self-determinate states in the world, you get over \$65 to 70 trillion of economic power. Now, as China continues to grow, that formula will change a little bit, but it certainly highlights to the next 30 years – the 30 years that I think are going to be so important to dictate what the world looks like over the next century – is that we need to make sure that that equation is right.

Now, today it's not right. Why is it not right? NATO, since World War II, has not – and I'm going to say it the way Americans say it – they haven't paid their fair share for their own defense. And I can back that up from the standpoint that they spend about 1 percent of their total aggregate GDP on military investment. We spend about 3 today. Now, that's down about 25 percent from where it was 10 years ago. And that's a problem. But on the other hand, if they had – and that delta – if they were just spending the 3 percent of their GDP that we have been spending, they would have been spending \$400 billion more a year in their defense. Now, that would probably mean that we would not have to spend \$760 billion, like we're going to have to spend next year.

And by the way, and I'm rambling here a little bit. I want to get back to the second option. This is the wakeup call that we have in the United States – and the Chinese have not missed this – and that is that every dime we spend on our military – every dime that we spend on our military – is borrowed money today because of our financial situation here in the United States. Now, China's got a problem with debt too, it's just harder to manage – harder to measure that.

So one option is we can slip into an arms race, a cold war, and the world cannot afford for us to do that. We cannot afford for us to do that in my opinion. Does that mean we disengage? No, it means we engage further. And that's what I'm trying to

do as a member of the Senate. Steve Daines, who also lived over there – I lived in Singapore and Hong Kong. We did some of the first joint ventures in China. Steve Daines actually lived there with Procter & Gamble. I was there with Sara Lee. We are trying to develop a more in-depth relationship with other people besides just Xi Jinping and President Donald Trump. We've had their Judiciary Committee from their NPC has come to our operation here. We've been over there and taken delegations over there.

So we're trying to develop a more in-depth relationship. But what we have to do is realize that if we don't engage then this will become a reality. But by engaging, then we look at the second option. And here's the question of the day, in my opinion. And I have an opinion. It's a weak – it's a weak backup. But, you know, the question is, is can we coexist as two economic powers and compete and cooperate? And that's the question. I don't mind them having a strong military. We have a strong military.

But if we cooperate from the standpoint of economic development of the world – think about this: There are 80 million people, refugees, today roaming the face of the Earth. Eighty million. We're generating the next generation of terrorists around the world today. We're doing that, the West is. And so by not addressing that issue collectively it's going to overwhelm us. I mean, I've been to Gaziantep. You know, I've seen some of these refugee camps. I've been to Jordan. I've seen them trying to immerse – I've been to Turkey – seen how they're trying to immerse this into their population. It's not working. I've been to Egypt. They got 6 million refugees in Egypt. They don't have the infrastructure.

So China, being the big economic power that it is and will be, and the United States being the big economic power that it is and will be, we owe it to the world to get together and do what the United States pretty much has done singlehandedly over the last 70 years, and that's help the rest of the world develop economically. Some measures say that because of our U.S. Navy and because of the economic power that we have in the United States, and our open market here, that we've helped lower global – serious global poverty by some over 50 percent in the last 30 years. And I've seen that in some places.

So those are the two options before us. I think to understand where China is today – and I'm going to try to abridge this just a bit – you have to look at what they're doing and what they're saying. George Patton got it right, you know, when he told Rommel – he said, I read your book, you bastard. Well, you got to do that here. You got to listen to them and take them for what they're – for what they say. Well, I think it was 2013 they published the Made in China 2025. I was shocked. And I wasn't in politics at that point. I mean, I was just a guy out in the hinterland with some background over there. And I looked at this, and I read it, and I thought: Wow.

They're telling the world that they want to dominate by 2025 – within a decade, basically – 2025, the 12 areas of technology. And how are they going to do that? Well, I'll get to that in a minute. But they just showed the audacity and the – I think – the misunderstanding they had of where America was at that point. They saw America as withdrawing from the international scene, which we were doing and had been doing for three or four years, and they felt bullish about that. In my view, in the Chinese culture, going back to Sun Tzu, they never tell you what they're going

to do unless they've made the decision that you either don't have the wherewithal or the will to stop them. And that's where China – Made in China 2025, that was the realization that hit me like a ton of bricks all of a sudden. And I think that's right.

I think they've made that determination. And when you look at the investments they've made behind that, and the activities that they have had behind that, it leads to this conversation we have today. We put it all under trade negotiation, where Trump says, hey, it's \$500 billion of trade deficit. We got to fix that. But it's much broader than that. We're negotiating with them right now. And I was over there on Labor Day and met with Vice Premier Liu He. And we do these trips very regularly. And the thing about going to Beijing is they will give you an audience. They really will meet with you. They really will engage. Now, you'll hear the propaganda, but they really will engage.

But Liu He, these – most of these guys are Western educated, their kids are Western educated. Most of them speak English, as you know, very well. And so this is a very efficient conversation. But that conversation led to then three weeks later a partial deal, a beginning of a step-by-step process to actually deal with the trade question. So I think that's a huge breakthrough, and I'm very encouraged by that. But we – and we got to do a lot more of that. What they've also done in this conversation – that we're trying to do five things. We're trying to – and this goes back to Made in China 2025, because to get there by 2025 they had to do a lot of nefarious things. And we need that to stop, frankly, and the world needs it to stop – some of it to stop.

We want them to stop stealing our technology outright. It happens. We want them to stop forcing the transfer of technology in these joint ventures. That happens. We want them to comply with the WTO. We helped them get into the WTO. We want them to stop the cyberwar. And we want equal access. Well, the easiest thing to get in there is equal access. And that's why I thought all along that getting this great mammoth deal put together and wrap it up with a ribbon was never realistic. So what we've done now is tried to come back and say, in the White House have now agreed – that let's do this in a step-by-step manner. And I think that is hugely encouraging, if we can stay with that. And the telling of that is next Tuesday. Or maybe – you know, it's coming at us. It's either next week or this week. We'll see. And certainly by the end of the year.

The Belt and Road Initiative. Look, who can – who can fault them for trying to develop the parts of the world that are important to them? Trade, they want to secure their supply chains for precious metals, and food, and energy. I get that. No problem. But when it becomes proprietary and you see what's happening with – I think it's around 36 ports in Africa and 52 ports in South America – I see what they're doing in Central America, particularly in Panama, and then in Venezuela – I get really concerned, because what they're doing is making these proprietary loans. They've already foreclosed in Colombo and Karachi. They have this 99-year lease in Cambodia now. They're 30 clicks down the coast in Djibouti from us. We see the expansion of their interest. If it's just trade, no problem. But I have a hard time saying, when you're going into a place like Colombo and you foreclose on your weak partner, and then you turn that port into a military port, it raises questions in my mind about what the original intent was.

Then I come to the Shanghai Cooperative Organization. The Shanghai Cooperative Organization has many members in it. And it's a military agreement – or, a military basis, or a platform, for conversation. Well, there are four nuclear members of that – Russia, China, Pakistan, and India – among others. And so you look at that and what they're trying to do there. What they were trying to do in trade when we backed up from the TPP debate, but now that we got a free trade agreement with South Korea and Japan, and if we get a USMCA done very quickly, this has a huge impact on the relationship that we're trying to develop with China.

And the last thing I'll talk about here is what they're doing you have to pay attention to, the social credit score. What they're doing – I spent a day last year with Jack Ma at Alibaba. And understood a little bit about data and how data's shared there, and how privacy is totally looked at culturally differently there than it is here. And that's an ongoing thing that I'm trying to learn about. It's a mammoth difference and it's hugely important as to how we try to deal with them. We have to take our lens off when we deal with China. Bonnie and I were talking about this just before coming out here.

It's like when I came to Washington. I see things so differently than people who've been here for 30 years. That's just natural. It doesn't make me smarter, it's just I have a different lens. And so I see the debt in a totally different way than somebody who's been here for 30 years. So when I look at China, I have a different lens than somebody who is looking at it from a Washington perspective. And I look at this social credit score, and it – I understand why Xi Jinping, who is president for life, this is important. And the echo – the thing that echoes this more than anything else is what's happening in Hong Kong right now.

So the social credit score really concerns me because the minority – there's a group of people in the Communist Party who are going to dictate what are the moral – what are the correct actions of personal behavior. And we're going to grade the population against that. And if you want to buy a car, you want to travel, you want to buy an apartment or whatever, or certainly get a job, or join the party, you have to have toed the line, and we're going to measure that. Well, combine that with facial recognition and 196 million cameras in eight cities, you kind of see where the headlines are going to be in the next 20-30 years, or not.

And you look at what's happening in Xinjiang right now with the Uighurs and that sort of thing. You sort of get an idea that they're concerned about controlling this population. They're more monolithic than we are, but they are diverse too. Just the numbers are just different. I think diversity is one of our strengths, obviously. They think that the monolithic culture is certainly one of theirs. It has been for 5,000 years. But we'll see about that.

The last thing is military. I mentioned the 30 months investment in the navy versus the last 30 years. That creates an issue for us because we have 292. They've said that we want 355 ships in the Navy. I would argue with that, frankly, because if you look at the way the military allocates our budget today, we spend \$760 billion. We have 14 percent overhead. Now, as a business guy, that's the first thing I look for, is where is the wasted money that's not getting to the tip of the spear? Well, that's 14 percent. That's a big number. And so that's \$100 billion. You look at what's causing that? Well, the '60s, that overhead was 2 percent. Now it's 14 percent on our military. That's just a maturing military. We have overhang. We have the VA.

We have social costs, like retirement costs, and health care costs, and all that. The Chinese don't quite have that yet. They will.

But the other thing you got to look at is when you get past the overhead, the allocation of the rest of the money in our military is a third, a third, a third. Now, that's not consistent – that's Navy, Army and Air Force. That's not consistent with the NDS. The NDS says that we've got to stand up to China's growing naval power. And so when you look at the 292 to 355, that comes from an earlier conversation that we get locked into that is not reflective of the NDS. So as a member of the Armed Services Committee, that's an area we're trying to debate right now, and trying to bring back in.

I'll close with this: This is too important to get wrong today. I believe we got it wrong back in the '80s and '90s. We were naïve. We looked at this with the American lens. And we were arrogant. We were the 800-pound gorilla. The wall in Berlin had just come down. The world was going to turn into a democratic state overnight. It just hasn't happened. It won't happen in my lifetime. But what we can have is this: We can grow self-determination, in whatever form that feels like. That's what Hong Kong's about, I believe, Taiwan to some degree. When you look at other parts of the world, though, they're still wrestling with that. And we have Africa sitting there. This needs China and the U.S. to become a cooperative force in the world today. And if we don't, and line our allies up with that, it could turn into a very dark world over the next 50 years.

With that, I'll conclude my remarks. Bonnie, I'd love to leave some time to have some questions and take your comments as well. Thank you very much.

Bonnie Glaser:

Well, thank you, Senator. It's clear that you've done some very deep thinking about this issue. And there's lots of questions that I have. I'll maybe just start with one or two and then open it up to the floor.

One of the debates that I think we're having in Washington is about whether the United States can have any influence on China's policies going forward. Some people argue that it really is no longer possible. This is part of the argument where people say engagement ultimately has failed. We have – we have not been able to influence Chinese policies. So I wonder as, you know, you made this argument that we have gotten it wrong so far. Is going forward, do we still have the opportunity through negotiation, through dialogue, to have some impact on Chinese policies, so that we can avoid confrontation with China? So that we can help advert the adoption of China of policies that are very harmful to American interests? And if that is still possible, have you thought about what is the best way to do that?

David Perdue:

I have. And you know, I'd be totally arrogant if I told you I had the conclusion. But here's the debate. And the debate is: Can we have influence over there? I don't know the answer to that. But here's the thing I do know, if you disengage you won't have any influence. So you can't disengage. We have to engage. But in what manner? Well, does that mean that we want to force our form of democracy on 1.4 billion Chinese? I don't – that's arrogant. I mean, that's – I don't see how that's possible. On the other hand, I think we can push back in places that – where we're being misled.

I mean, Xi Jinping in this city said that he had not militarized the South China Sea. Well, we pushed back on that. I just – after I was in Beijing over Labor Day I flew to Manila, got on a Navy P-8 airplane – intelligence plane – went over the Spratly Island, which is only about a two-hour flight. It's very close to Manila. And we flew over Fiery Cross and Mischief Reef, Subi, Scarborough, and saw. I mean, it is incredible. I've seen the aerial photographs. I've seen the – you know, all the classified stuff about Fiery Cross. But when you see it personally, and you see the silos, and you see the buildings that have been built, and the runway, and the port, the day we flew over there, there wasn't one ship there, there wasn't one plane there, there wasn't one truck there. We saw one Jeep and one person. Now, there are probably 50 buildings, eight stories tall, some barracks, some office buildings or whatever. It's a huge complex.

Then we flew over – now that sounds, OK, well, that's necessarily militarily. I mean, you know, you could have – that could be for a lot of reasons. But when the we went over Mischief Reef. And there were 41 military vessels anchored inside Mischief Reef. Now, Mischief Reef is an atoll. It's not very large. And 41 military navy vessels in there is a very crowded space, plus tenders and bunkers. They were getting fuel and all that. But most telling to me was out in the South China Sea we saw coast guard vessels that looked just like ours. They got the orange stripe on the side. They say coast guard in English. But they got the red flag on the back. And so we saw that from 50,000 feet, and we saw it from 500 feet. And we saw multiple vessels of coast guard.

This is 1,000 kilometers away from the coast of China, guys. That tells me that that's they're now trying – so pushing back on that and letting them know that that's unacceptable. Why is that unacceptable? Well, something like 40 percent of all the oil and natural gas flows through that area. A lot of the other trade that we do around the world goes through that area. And the most important thing is what's underneath, obviously, the natural resources that they are going to claim – they are trying to claim is theirs. Pushing back on that, pushing back on this trade issue. Saying enough is enough. Pushing back on an intellectual property protection.

But we've got so many areas of engagement there that we don't have an answer for. Let me give you the most complicated one of all. We recruit Chinese students into our universities. That's a great thing to do. But after 1965 – part of the Great Society's gift to America was that it did away with an immigration law that said prior to that time if you got – if you were a foreign student in America, and you got a college degree, you became a U.S. citizen. Well, we changed that to become more of a family-based immigration system, and we have the mess we have today.

But what that does, today we educate a lot of kids from China and we want them to come into our universities. They add so much to our universities. But if we, you know, don't give them an opportunity to become a citizen, then they – a lot of them go back, a lot of them go to Canada and Australia. Some of those that go back to China then turn around and compete with us nefarious way. And some of these things that are done on our college campuses now are done for other reasons other than just pure student education.

The other is information flow. I mean, how in the world – with Huawei doing what it's doing, and we know that Huawei is a bad actor. We know that from a classified

point of view. There is no question about that. So the question then is, who's going to – who's going to control 5G? Who's going to be the winner in 5G? Well, right now, in a democratic society like we have, and the free enterprise systems, if you don't – if you make the wrong decision then you handcuff your companies in terms of competing with them.

So we've got to look at this thing more, in my mind – and this is hard to do, Bonnie, in a free market system. To compete with China, we've got to adapt to some of these realities. But I think disengaging would be a tremendous mistake.

Bonnie Glaser: Agree. All right. So we're going to open up the floor to questions. Please wait until the microphone comes. Please identify yourself. And ask a very brief question. OK, who would like to start? This gentleman over here, microphone is coming right behind you.

Steve Traver: Senator, I'm Steve Traver, retired Navy.

The situation in Hong Kong as it relates to the perspective of the people in Taiwan with regard to relationships with China. Any sense of how the people of Taiwan might be feeling about looking at the two system one state solution?

David Perdue: Well, first of all, thank you for your service. And we're trying to help get the Navy on its feet to stand up to this requirement that we have.

I was just in Taipei. And they are very concerned. They're watching every minute. I was – Bonnie and I were talking before – I am shocked at how Taiwan has been so marginalized in the last five years. It's amazing. But they are very attentive to what's happening in Hong Kong. But it – the Taiwan think you bring up raises a question – and you're Navy – I can't resist reminding us again of the big dilemma we have. And that is with a lot of these countries we have these bilateral defense agreements. We have one with South Korea, Japan, Taiwan. Taiwan's a perfect example. If China for some reason attacks Taiwan, we have an agreement that says that we're going to go over and help defend Taiwan against China. But to do that, we have to go to China and borrow the money to go to Taiwan and help defend Taiwan against China. That's how ludicrous this has gotten.

And the Taiwanese know that. The Chinese know that. The thing I'm concerned about Taiwan is that they – first of all, they've been marginalized economically. And they are feeling the heat of that. In Hong Kong, it's a little different situation there. The question is, how is Xi Jinping going to handle that? How is he handling that? And when you saw Carrie Lam back up from here first requirement of extradition, now you see the other things that are coming to bear. And suffrage is the big issue. And I just can't see Xi Jinping giving in on that. So this – for the first time. They've done this four or five times in the last decade. This one – this one is serious. And I don't see an easy outcome of this because of that one issue. I just can't see Xi Jinping giving in on that, given everything else he's doing inside China.

Bonnie Glaser: Next question. Did you have your hand up, sir? OK.

Emanuel Pastreich: Thank you, Senator. My name is Emanuel Pastreich from The Asia Institute.

The general impression in Asia and around the world is that the current Trump administration is less committed to the previous agreements on, say, arms control or negotiated treaties. It seems to some of us that the only way to deal with this particular issue you brought up is some sort of a general agreement for Northeast Asia. What are your thoughts on that point?

David Perdue:

Well, that's a great question. You know, what's going on in North Korea is very troubling. But the fact that we were in the INF and China wasn't creates another problem. And I go back to the naval situation. What China has done is very obviously made a commitment to develop the ability to elbow people out of their neighborhood. And they've expanded that. Just since Admiral Harris, who was the PACOM commander in '15, when I visited with him, he showed me what that looked like. I was just visiting with Admiral Davidson, the INDOPACOM combatant commander just after Labor Day, after that trip. And he showed me what it is today. And it is dramatically different. And the reason it's dramatically different is because China has now much more capacity. And that's in five years.

So when you see that change in five years, and extrapolate that across the next decade, I'm very concerned. The only thing in Asia that's going to help us develop stability in the region, I believe – and I think there are players like Malaysia, and Singapore, and the Philippines, and Indonesia are very critical in that – right now they've had to elbow up close to China. They keep an interest with us. But I see some, now, reversal of this because of some of the things that China has done. There's no question that getting – and let me address a thing about this administration. First of all, this administration realized when they got there – and I was part of this conversation – that we had had an unfair position over the last seven years.

Now, part of it was our doing. I mean, Ronald Reagan was one of the first investors in China to help develop their technology. It was to our benefit to help China develop. And we did that. We opened up our market. We need to have access into China's market. They didn't have one. Today they've got 400 million middle-class consumers. Of course we want access to that. If you're going to have global trade then you have to have equal access. That requires agreements. But the agreements we've had in the past are outdated and archaic. The INF, by not including China, creates this imbalance.

And I can't give the specific numbers, but if you look at the range of their cruise missiles versus our range, OK, and the things I'm doing here are pretty representative of that difference. It is a dramatic problem – a dramatic problem. Not only are we outgunned in terms of number of vessels on the ocean, we're outsticked in terms of the capability and the weaponry we can bring to bear. So there is no question to bring stability and give some, I think, comfort to the Chinese that we're not trying to dominate them the way the west did in the 19th century. This is what I believe they're trying to get over, frankly. They just want to be respected, just like we do. Imagine if somebody were to drive into Cuba, you know, today and say: OK, we're going to put a few missiles down here in Cuba. Well, I think that happened in 1962. We didn't react very well with that, did we? So I get it. And having lived there and understand – I understand that dimension of it.

What I don't like is this: The Chinese for 30 years have felt like they had – they needed an unfair advantage to catch up. And that meant that they could not comply

with WTO. That was their right. They were – and they called themselves the largest developing country in the world. They call us the largest developed countries in the world. And the intimation is that because of that they should get a free pass. They should be called a developing country and get the advantages of that. At \$12 trillion, and adjusted for purchasing power parity, I believe their economy's about the same size as ours. And so these agreements could not be more important.

That's why I think the trade conversation with South Korea, and the Japan, and now Australia and others, I think will encourage China. I'd love to have a free trade agreement with them. That's what this is all about. And so having a collective organization that would – that's why I like TPP, frankly, because it attempted to stand up to a more unified approach with China.

I think we had one over here, if you have time.

Bonnie Glaser: Yes, great. OK, over there.

Tom Reckford: Thank you. I'm Tom Reckford with the Foreign Policy Discussion Group.

Senator, you made a big point that our alliances are our number-one strength in coping with China's rise. Yet, our alliances have been weakened considerable in the last few years. You look at France, you look at Germany, you look at South Korea. And we didn't consult with Japan when we entered into some negotiations with North Korea. What can we do to improve our relationship with our vital allies?

David Perdue: Well, first of all, I have no problem engaging vital allies when we're being disadvantaged. I applauded the president when he went to NATO and said: Hey, pay your fair share or we're out of here. Now, he wasn't going to drop out of NATO, but it got their attention. And when their leadership finally decided, yes, that's the right thing to do, that's only fair. Four hundred billion dollars. I would – I would disagree a little bit with the premise that our allied relationships are – have been weakened. Yeah, we have disagreements because we now are finally standing up to these allies and saying: Hey, what interests – what are our interests? We've taken care of their interests for 70 years. It's about time that we talked about a level playing field with some of our strong allies, including France.

And, look, once Britain decides, and Europe, EU, gets past this Brexit dilemma, we're going to have the same kind of conversations with them. Just what we just had with – and this is not just about trade. And it's not just about the military. But those are the two big areas that we've engaged. And I think actually we have stronger relations. I was on Foreign Relations, I'm on Armed Services now. I travel the world a lot, talking to these leaders. And when – frankly, in 2015-16, the first two years I was here when I was on Foreign Relations, the number-one thing I heard around the world was: Gee, we need America to reengage. Well, we're reengaging.

America first doesn't mean America alone. And right now what we're trying to do is establish what the relationship with our allies be. What should our expectations be? What should their expectations be? The ones that are really responding today are people like Canada, Australia, people who have been with us all through the last five or six decades. Europe is going to come around, and they've already done that

in NATO to make the commitment they're making. Look, RAND made a study in the Baltics two years – maybe three years ago. Said, look, in 60 hours Russia would take the Baltics. It would take us six months to stand up enough resources to give the leadership any kind of ability to make a decision about pushing back.

So we know we've got some imbalances around the world. I frankly think right now the number-one thing we need to do about China is engage with China. The second thing we need to do is make sure that we engage with these allies. And it's a great question and I appreciate the point of view. Thank you.

Bonnie Glaser: OK. We have time for one last one. This gentleman over here.

Samani Shiata: Thank you. I'm Samani Shiata from The Liberty magazine and Happy Science.

How do you – thank you, Senator. How do you evaluate the impact of Hong Kong Democracy and Human Rights Act, probably positive or negative impact on trade issues in the short or long run? Thank you.

David Perdue: You know, I think it's the question of our time both here and how we engage with China. I've just said the two things we need to do is engage. Well, if you engage, how can we influence China with their monolithic structure, with the Communist Party, where 7 percent make the rules? And now they have this social credit score development that they're trying to – you know, Xi Jinping is demonstrating that he is very concerned about keeping control of the population inside China as it develops. You can only look that the allocation of capital has been very inefficient in China.

Now, yes, they have developed very rapidly. But you can throw a lot of capital in infrastructure and build 23,000 kilometers of high-speed rail, which they've done. But what happens is, when you have this sort of movement into 400 million people who are now consumers – middle class consumers – I think the leadership over there right now is really struggling with how are they going to maintain control, and will there be a challenge to the communist ethos? That's what I – I mean, that's just a – that's a nonpolitical observation of somebody that has friends inside China, and really cares a lot about this relationship between the two countries.

Hong Kong is going to have a dramatic influence on that, potentially. This suffrage idea about whether we're going to have open and honest votes for the leader I think will be the real litmus test for Xi Jinping. I don't see it – personally, I don't see him being able to do that right now. And that's going to have a big impact. This won't go away easily, but it's already having a big impact inside China. Social media is alive. These people in China now understand what's going on in Hong Kong. Many don't understand why, because frankly they've never seen it or lived it. But there's a lot of cross-border information flowing about that. It will long-term have a dramatic impact on how the leadership in China, I believe, deals with the number-one problem they have. And that's controlling their own population.

Bonnie Glaser: Well, Senator, I think you've touched on just about every issue that we are going to talk about and dig into later today. So I really want to thank you for kicking off our conference with some really terrific sets of framing remarks. And thank you so much for joining us today.

David Perdue: Thank you very much. Thank you.

(END)