



Understanding China’s Economic Slowdown: Countering Belt and Road and Beijing’s Plans to Dominate Global Innovation

TRANSCRIPT

Discussion.....2

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THOMAS DUESTERBERG: OK. Good afternoon, ladies and gentlemen, and welcome to the Hudson Institute. I'm Tom Duesterberg, senior fellow here. And I'd like to welcome you to the session on the economic slowdown in China and how to counter major Chinese outward-looking initiatives such as the Belt and Road and Made in China 2025 program. Our program today features our senior fellow John Lee, who's written two reports on this subject, and hard copies are available at the front desk if you're interested in the hard copy, and otherwise it's online at our website. As you shall see, John has dug deep into the roots of the Chinese economic slowdown in recent years, assembling a ton of hard data to support his approach and linking the Belt and Road and China 2025 programs to the internal political and economic imperatives, which he argues result from the slowdown. This discussion has perhaps even greater urgency today as the coronavirus epidemic is clearly weakening the Chinese economy even further. We're going to start - well, I would like to note, too, that we want to thank the Smith Richardson Foundation, which helped to support John's work that led into these two reports.

So we're going to start with John's overview of the reports and then have commentary from two noted China experts - Nick Lardy of the Peterson Institute and Patrick Cronin, the Asia-Pacific security chair here at Hudson - followed by a discussion among the panelists from the stage and then going to questions from you in the audience. So let's start with John's summary of his reports. For background, John is a senior fellow here at Hudson, as well as the United States Studies Centre at the University of Sydney, where he is also an adjunct professor. His work on China was interrupted between 2016 and 2018, at least his academic work, when he served as senior national security adviser to Australian Foreign Minister Julie Bishop. John holds a doctorate and a master's degree in international relations from Oxford and a bachelor's degree from the University of New South Wales. He is one of the foremost experts on Chinese political economy and on both strategic and economic affairs in the Asia-Pacific region. John, thank you for being here.

JOHN LEE: Thank you, Tom. Thank you all for giving up your lunchtime and being here. It's a pleasure to share the stage with Tom, my colleagues Tom and Patrick and also Nicholas Lardy, whose work I followed for the last 10 years or so it's - his worked I've learned quite a lot from. I remember attending a roundtable in early 2015 in New York on the Chinese economy. And in the room were some of the top American experts on the Chinese economy, a few bankers and a few fund managers. And the verdict back then, early 2015 - the verdict back then in that roundtable was close to unanimous that the Chinese economy was in real trouble and that China would soon be in a world of economic pain. The reasons given then were all linked - extreme credit growth, a real estate bubble, a highly leveraged shadow banking or unregulated lending sector and growth in local government debt. There was talk around that table about an impending fiscal crisis because fiscal income was heavily dependent on unsustainable industrial growth and a property boom. Since the profitability of corporations in China were declining and, also, real slowdown in real estate values, the fiscal numbers back then for China were looking pretty grim.

As Tom mentioned, I then entered Australian government in - at the beginning of early 2016, and I did not come back out until mid-2018. And by then, it appeared to a lot in the outside world that China had successfully managed its problems and had sailed through this predicted financial crisis, just as it did in 2008 when China's major export partners, the advanced economies - into a dire financial crisis. And I found when I emerged back out into the nongovernmental world that rather than talk of Chinese problems, the conversation was about

the sheer scale and daring and ambition of China under Xi Jinping, who had become probably the most powerful leader since Mao Zedong. It struck me as well that the way the Chinese Communist Party spoke about China and itself had also changed quite dramatically. Up to around 2014, 2015, Chinese leaders tended to emphasize their vulnerability and the challenges facing their country. The intention back then was to play down any kind of China threat to prevent coalitions forming against China.

This has changed. It is now much more about promoting rather than downplaying Chinese strengths and concealing rather than highlighting Chinese vulnerabilities. This includes overstating rather than understating the expansiveness of economic plans, such as the Belt and Road and Made in China 2025. Now, domestically, the intention was undoubtedly to strengthen Xi's standing and prestige. Externally, the intention, it seems to me, is to make the case for the inevitability of Chinese success and dominance. It's to make the case for the superior wisdom and competence of the Communist Party and the authoritarian system, which is, I guess, a smart strategy because this weakens domestic and external will to resist any Chinese policies. So this is the background to the two-part monograph, the second of which is being released today. And I know you'll want to hear from my other panelists, so I will be brief. I will give you what is necessarily a shallow and glib summary of the argument in the two reports. So the thinking goes something like this. China can't be the dominant power in the Pacific without sustained economic growth. Given a lack of institutional and economic reform, the only reliable or the main way Beijing has of maintaining adequate growth is to support its companies with cheap credit. But the rise in Chinese corporate debt since 2008, 2009 has been one of the largest, the most rapid in economic history over that period of time in relative and absolute terms.

More and more economic resources and credit is being used to manage existing debt, which was a situation which occurred in Japan in the 1980s and 1990s. Now, China cannot significantly deleverage without drastic changes to its political economy. The current model largely involves offering state-owned enterprises and national champions and other preferred firms, such as Huawei, cheap finance, privileged domestic market access, more credit and generous subsidies at the expense of a far more efficient independent private sector in the country. The Chinese domestic economy is slowing because of chronic overinvestment and a rewarding of inefficient firms rather than allowing what we call creative destruction to occur. In other words, it's very much dependent on adding more inputs, labor and capital, rather than using inputs more efficiently or productively. Now, this brings us to the economic rationale behind China's century plan, such as the Belt and Road Initiative and Made in China 2025, which, of course, has significant strategic consequences. The Belt and Road began as a scheme to export excess capacity and lock in new regional markets for Chinese firms, especially those involving construction, industrial products, infrastructure and related services. It - the Belt and Road also was a plan to help the development of the landlocked western provinces and regions in China. Made in China 2025 is - you could call it a new export-orientated approach based on dominating increasingly important sectors and feature advanced and high-technology sectors in global markets.

Now, in both cases, they are attempts to create external commercial opportunities for largely protected and unreformed Chinese firms without the need to reform the country's economic or political institutions. Now, General Secretary Xi believes doubling down on this approach offers the party the best prospects to retain its hold on power because it allows the party the prospect

of retaining its hands on the economic levers of the country. As with virtually all major economic developments in China, the party soaks up praise when things go well and will wear the blame invariably if things don't go so well. For Chairman Xi, who's known widely as the chairman of everything, the pressure, presumably, would be acute. His success depends on preventing the emergence of a genuinely independent and powerful middle class, which led to political reform in other Northeast Asian countries like Taiwan, South Korea and Japan. The problem for China, in my view, is that its economic approach is designed to permanently forestall reform, which China's own economists are asking for. Less-deserving companies continue to receive the lion's share of finance and opportunity, which means the misallocation of capital gets worse. This makes debt even more difficult and expensive to manage. Because allocation of opportunity is political, the private sector and, therefore, household income will continue to remain artificially suppressed, putting even more pressure on Beijing to stimulate growth through further credit expansion.

This brings me to the main intention of producing the two reports that I did. It is clear that there are fundamental aspects of the Communist Party's economic, industrial and security policies that are diametrically opposed to American interests and values and opposed to those of my country, Australia. In coming up with effective policy responses, it is clear to me that there are some dominant narratives and assumptions at play which ought to be challenged, but they have to be challenged through the use of evidence and not just more rhetoric. I would point to four narratives which are commonly assumed but rarely contested and which I believe play into the hands of the Communist Party. The first narrative is that the external policies of Xi Jinping and the Communist Party begin from a position of unprecedented strength and national resilience with few domestic vulnerabilities. My counterpoint is that this is quite the opposite. Xi and the Communist Party is engaged in a high-risk, high-cost approach to pursuing the growth of Chinese ambitions abroad whilst concealing significant vulnerabilities within China. The second dominant narrative - that there is a unique economic and governance competence that you have to attribute to the Chinese Communist Party compared to what we see as the chaos and dysfunction of liberal democracy, such as the United States.

For example, the argument is made that China has proven time and time and again the ability to adjust sail through financial crises or predictions of financial crises. I argue that the Communist Party and its authoritarian model shows a stubborn inability to learn from past errors and an unwillingness to address serious problems. The third narrative is that China does not need the United States or other advanced economies to achieve its objectives; China is already sufficiently large and sophisticated and powerful enough to achieve a terrifying self-sufficiency. My argument is that China cannot achieve its objective, its external objectives, including its economic objectives, without the cooperation of the United States and other major advanced economies. This is despite its economic size. And its economic tools and levers given its size in the world are, to some extent, surprisingly weak. This includes China's continuing reliance on technological and innovation inputs and imports from advanced economies and the downsides of a still largely closed capital account, which inhibits the attractiveness of its capital markets and inhibits the internationalization of its RMB currency.

The latter point causes China to be far more reliant on the U.S. dollar than it would like to be. And even the resilience of its domestic economy is enormously vulnerable to American policies. The fourth narrative is that the United States and other countries have very little ability to influence domestic Chinese politics, especially when it comes to challenging Xi's authority or

some of Xi's policies. My counterpoint is that Xi's high-risk tolerance approach is causing immense internal angst. The more actual or perceived failures for China and the greater the rise in international resistance attributed to Xi's actions, the more pressure he will feel to retreat and to take a more cautious approach. Essentially, I'm making the argument that China is the deterrable. Now, I don't downplay or underrate China. This is not a China-will-collapse thesis that I'm advocating. China, in my view, is the most formidable and comprehensive challenge facing the United States and Australia, and the challenge is complicated by the fact that China is an indispensable economic partner to us and to many of the world's economies, and we need Beijing's cooperation on many matters.

But I think the point is that responding well to China means understanding its strengths and weaknesses and how these drive both the Communist Party's policies and behavior. Essentially, I'm trying to do what Deng Xiaoping asked his countrymen to do, which is to seek truth from facts. Let me end by offering a few words about American economic policy towards China. When I was in government, I spent half my time when the Obama administration was in power and the other half when the Trump administration was in power. Now, what I'm about to say isn't political commentary; it is policy commentary based on my observations from the very heart of an allied government in a region. Both the Obama and Trump administrations considered many of the economic plans and practices of China damaging to the United States and to the global economy. The main difference, it seems to me, is that the Obama administration wanted Chinese cooperation on other issues, such as climate change, more than it wanted to confront Chinese behavior. Moreover, psychologically and both - and also from the policy perspective, the Obama administration was far less tolerant of disruption, unknown consequences and admonishment from Chinese trading partners, like Australia, who similarly did not want disruption or unknown consequences.

Perhaps most significant of all, I received the sense that the Obama administration did not think China's behavior could be changed, that China was deterrable. This could be because it underestimated American and other leverage or else overestimated China, their reach - or both. The current White House is quite the opposite to these mindsets. Its approach is to put pressure on China before seeking a negotiation. In my view and from my personal interactions with many current senior officials in the administration, it has a much more accurate perspective of American leverage and Chinese vulnerabilities. They do not think that the cause is hopeless. It hasn't given into a self-defeating fatalism, which I was detecting in the previous administration. The current administration has shown that China can be put under pressure and that there are options to do that to achieve certain outcomes. I think where the current administration could do better is with its institutional mindset. And here I speak as someone who is from an American ally but from a smaller country which isn't a superpower and doesn't have a population large enough to rely on our domestic market for our growth.

The current administration needs a more credible vision of an institutional outcome to problems, especially when confronting China economically. Now, it could be a model of WTO reform, or, if that's unlikely, which is probably the case, parallel institutions. Or it could be multilateral agreements which either include or exclude China, such as the Trans-Pacific Partnership. The United States pulling out of the TPP, I think, is the biggest mistake it has made when it comes to regional policy. We need to be on the same page when it comes to critical supply chain, disentanglement and the creation of non-Chinese alternatives, and I know this is starting to occur with things like 5G. More generally, smaller nations and allies need an element of

predictability when it comes to American leadership and intended strategic outcomes, even if tactics have to be necessarily fluid and adaptive to keep China off-balance as needed in any negotiation. Now, there are no easy or elegant solutions when it comes to dealing with China. The point is to cooperate where we can and compete where we must. Looking past lazy or untested narratives and getting a better idea of Chinese strengths and weaknesses is a good way to start. And this was the reason I released the reports. Now, thank you. I will end. I'll pause. And I'll - I look forward to the engagement with my panelists and the audience. Thank you.

(APPLAUSE)

DUESTERBERG: Thanks, John, for that overview. Now we're going to have some commentary from our panelists. And I'm very pleased to be able to have, first, Nick Lardy, who is the Anthony Solomon senior fellow at the Peterson Institute for International Economics. Prior to joining Peterson, he was at the Brookings Institution and the University of Washington, where he directed the Henry Jackson School of International Studies. Nick is undoubtedly one of the world's leading experts on the Chinese economy. His most recent book, "The State Strikes Back: The End Of Economic Reform In China?" - with a question mark - chronicles the return to dominance in China of state-owned enterprises under President Xi and the impact on the Chinese economy. By my count, Nick has written at least six other books on the Chinese economy. He's thus perfectly placed to add insight to our discussion today. Our second panelist, Pat Cronin - Patrick Cronin is the Asia-Pacific chair here at the Hudson Institute. His wide-ranging interests focus on the challenges and opportunities confronting the United States throughout the Asia-Pacific and the South Asian regions.

Some of his previous positions include research at the Center for a New American Security, London's International Institute for Strategic Studies, the National Defense University, the U.S. Institute of Peace, Georgetown, Johns Hopkins and the University of Virginia. In 2001, Dr. Cronin was confirmed by the Senate to the third-ranking position at the U.S. Agency for International Development as assistant secretary for policy and program coordination. Patrick holds a doctorate, an M.A. from Oxford and a B.A. from the University of Florida. He's written widely for three decades or more on the security-related issues in his areas of expertise. So I want to turn first to Nick for a few opening remarks, then Patrick. Then we will go into a back-and-forth here on the panel.

NICHOLAS LARDY: Thank you very much. I'm delighted to have a chance to comment on these two reports, which I had a chance to read over the last couple of weeks. And I'm going to talk about some things that John didn't have time to go into detail and some things reinforcing what he said. Now, as he pointed out, I think his initial argument in the first part of the first study is that China's economy has major, major structural problems. Its growth slowdown is permanent. It has poured too many resources into unproductive and commercially irrational projects. Its debt has risen at a precarious speed to dangerous levels. It faces a fiscal crisis. And local government financing vehicles which had been an important source of growth are basically insolvent. They're issuing new debt to manage their old debt rather than to undertake a lot of new projects.

And finally, of course, he emphasizes that China is a Leninist political economy, using all the economic - tools of economic power to further the dominance of the party. Now, I agree with most of this, although some of it may be slightly overstated. We could - I don't want to argue

about some details. I think one shortcoming, however, is the fact that it does not give specific or explicit recognition to the fact that China's efforts to slow down the growth of credit since 2017 have met with some success. In other words, we have this extraordinarily rapid ramp-up of debt to GDP, which John does demonstrate. But since 2017, it has kind of almost plateaued off, and so debt to GDP is no longer rising so rapidly. There's a little variation from quarter to quarter, but it looks like a very different trajectory than the previous six or seven years.

So they've made some progress in this domain, although I don't want to overstate it. The second parts of the report in the second report go on to talk about Made in China 2025, which John argues will give China control over and the dominance of the entire manufacturing process and supply chains in 10 critical sectors, and we all know what they are because we've talked about this so much. His hypothesis seems to be that Made in China 2025 will solve or at least alleviate many of China's current economic problems. So the Made in China 2025 is what he calls a grand strategy to overcome the problems and to gain global preeminence. I have a little bit of a trouble with this, you know, seeing Made in China 2025 as a solution to the problems, and I think John does, too. In his opening remarks, he talked about how Xi Jinping favors the continued build-up of state companies, which he has characterized in the study as a massive misallocation of capital, which I tend to agree on. So I'm a little unclear how an economy that has all these major structural problems is going to use Made in China 2025, which is another top-down, state-driven strategy, to deal with the economic problems that have accumulated, primarily since the global financial crisis.

The second thing I'm going to say a little bit about, which I don't think John talked about very much - he has a whole series of policy recommendations to exploit China's technological weakness and its dependence on technology inflows. We should block the access of U.S. technology companies. We should block science and technology cooperation with China. We should restrict the issuance of visas to Chinese students who are studying in sensitive areas. We should prohibit exports to China of certain parts and products and components. And we should revise U.S. government procurement strategy to prohibit the use of components and parts with value added from China. Now, my problem with this is that there's not much, if any, discussion of what such policies would cost the United States. I think there is a body of research that suggests the United States, because it has strong local research, is a major beneficiary of international collaboration in basic scientific research. The U.S.-China tie is extremely strong. It's the second-strongest in the world. And I fear that blocking science and technology cooperation between China and the United States could be more costly to the United States than it would be to China.

Now, you may decide it's a good policy anyway if that were the case. But I think, at least, we have to begin to have a serious discussion about whether that's true and to what extent. Certainly, from public reports, we read that even a few senior Pentagon officials believe that a decoupling of technology between China and the United States would have such an adverse effect on U.S. - leading U.S. technology firms that it would impair the ability of these firms to supply advanced technology to U.S. military forces. I'm not saying whether I agree with that or disagree with that. I'm just saying some people think that this is a risk. Another comment I have is there's not much - no, let me go further. I don't think there's any discussion about what the U.S. should do proactively to maintain our technological lead. It's more the discussion focuses primarily, if not exclusively, on what we can do to slow down China. And I think, you know, we

do need to take into account that federal R&D expenditures as a share of GDP have fallen by two-thirds since the 1970s.

Trump a year ago signed an executive order establishing an American artificial intelligence initiative, but it provided no new sources of funding to make that initiative successful. I'm very struck by a recent task force report from the Council on Foreign Relations, which has the title "Innovation And National Security" - has a whole set of comprehensive recommendations of how the United States can strengthen its technological lead. And so, you know, maybe we need to slow down China a little bit, but I think the more important thing is to adopt policies that would allow the U.S. to maintain its lead. Finally, I want to say something about - oh, John's argument that we have a lot of influence over China, and we shouldn't be afraid to exercise it, and he contrasted Trump with Obama. I'm not so sure that we have such an unmatched ability to compel China or other states through threats and punishments. I don't think we exactly had a roaring success in the South China Sea trying to deter China's actions there. I'm not a strategic specialist.

Maybe Pat will comment on this. But there are a lot of people, or at least a few people, who have said, game over. We've lost. China won. We were not able to change their behavior in the South China Sea. And again, since unprecedented pressure was placed on the U.K. to not use Huawei's technology, they're going ahead and using it anyway. Germany is likely to follow. And so I'm not so sure we have such strong levers to get other countries to accommodate our needs. Then I want to make one final comment on the Belt and Road Initiative. John describes the Belt and Road Initiative primarily as a way of finding external avenues of economic growth while, as he correctly points out, resisting domestic economic reforms. So, as he said in his remarks, it's a potential solution to overcapacity in many domestic industries, and it's a policy to keep money-losing state-owned companies afloat. I have been - this is a very common hypothesis. John's got lots of company in suggesting that this is one of the motivations for the Belt and Road Initiative. But if you look at the numbers, I don't think it really is an adequate explanation of Belt and Road.

Lee quotes the Morgan Stanley study that estimates the scale of investment undertaken in Belt and Road projects is about 200 billion to date, and they'll be - by 2027, it'll be 1.2 trillion, 1.3 trillion, which seems like a bit. But given that the project started, you know, several years ago, that's going to mean that the average annual investment is going to be something in the neighborhood of about a hundred billion dollars a year. But keep in mind, China's a \$14 trillion economy. The share of investment has moderated slightly in recent years, but it's still a bit over 40%. So that means domestic investment in China in 2019 was about US\$5.5 trillion. If the Chinese economy continues to grow but at a much lower rate and the investment rate comes down, I think investment, in absolute terms, by 2027 might be running at about 7 trillion. So average investment between now and 2027 would be about 6 trillion a year. So an extra hundred billion in an investment program of 6 trillion isn't going to rescue very many state-owned companies from their money-losing position. It's not going to add enough to aggregate demand. So I fall back on the idea - and again, I'm not an expert, but I think the Belt and Road is primarily a geostrategic initiative. It's not an initiative that's designed to help the domestic Chinese economy. And just to reiterate my earlier point, I don't think Made in China 2025 is likely to effectively serve as a grand strategy that's - John's phrase - to overcome its domestic economic vulnerabilities.

DUESTERBERG: Thank you, Nick. Patrick?

PATRICK CRONIN: Thank you, Tom. I think I'll just...

DUESTERBERG: Yeah.

CRONIN: ...Stay seated here and - because I know we'll jump into the discussion - great comments. First of all, I just want to congratulate John Lee on, really, two excellent reports. And you really should read them. Both are available online if you don't get a hard copy. And, of course, I always listen to what Nicholas Lardy has to say, even if I don't agree with him. I think what we're partly engaged in here in Washington - and I include, you know, our Australian allies in that discussion - is a continued search for how to fuse our own economic and security policies as we face a rising China or a China that's plateauing and maybe not rising as fast in the future. I think that's - that is, indeed, one of the big signal challenges that we face. And I don't think we have the answers on that. You can see the nuanced sort of points that Nicholas Lardy was making that, well, I'm sure John will have answers to. But at the same time, that's part of the give-and-take we need, I think, to come up with an incredible fusion. I just wanted to make three points from a more strategic perspective here, the first of is - which is we can't really foresee the economic future of China for the long term, or at least we should be agnostic about it, from my perspective. So when I read "The State Strikes Back," an excellent, splendid little novel - you know, book - not novel - book.

For those of us who like to dabble in economics, not focus on it full-time, short books are better than long books. And in that book, Nicholas Lardy makes it clear that there's nothing pre-determined about China's economic trajectory. John doesn't say that. John's, though, raising real questions about - that China's not immune to the laws of economics or physics. You know, what goes up must come down. There's this - clearly, the welter of problems of misallocation of capital and structural problems that are deep-seated in debt that have been cited already and that are in the reports. And we can see now with the coronavirus, as well as with the global financial crisis, there are these other external events and black swans that nobody can predict what will happen in the future. But we did see this so-called gray rhino coming. That is, the Chinese Communist Party saw this gray rhino coming of a slowing demographic pattern in China, for instance, in the challenges that we're facing. So this is not really a big surprise even for the Chinese leadership. They've been grappling with this, and, as Nick was suggesting, they've been trying to make some adjustments but not the adjustments that would challenge the party's leadership, that fundamentally challenge the political authority of the Communist Party.

And that's the big challenge for China - whether they can get enough reform without really reforming. And there are legitimate questions, and we should continue to be agnostic, I think, about the future of the Chinese economy. I'm ready for all contingencies of whether China's going. The second point is that if China's economy is plateauing or even lagging, slowing in growth, I can find many problems with my own country's economy. And so while we have - you know, the Trump economy is going well for the moment, the structural challenges for the United States are, you know, still, you know, unstintingly large. When you think about our own challenges with debt and the baby-boom generation retirement and the pensions that are looming, we think about our own debt and our own infrastructure and education, the R&D issue, the erosion of the post-World War II order and the alliance network - all of those are major challenges. They can be addressed, just as China can start to address their problems. All I'm saying is that on the other side of that ledger, there is another country. So it's the old joke about, you know, trying to outrun a bear. You only have to outrun the other guy, not the bear. And so if

China's outrunning the United States over this next decade, you know, they can at least stand on top of that global economy as they look out to mid-century and their China dream.

Now, third and finally, I just want to get to the - you know, the thrust of the recommendations and just the excellent sort of spotlight on China's vulnerabilities. I think this is very important. It's a great corrective to the assumptions that John and I hear often in conferences in the region and around the world. And yet, there's no doubt that while, you know, China is a bit unstoppable in the South China Sea, China has bullied all of the claimant states, even this past year, when China doesn't need to. It's pushed its way into Vanguard Bank, which is - you know, if you look at the exclusive economic zone of China, wrapping around Asia, and then you look at the exclusive economic zone with Vietnam, Vanguard Bank is at the bottom of Vietnam's exclusive economic zone. And yet, that's where China chose to push Vietnam around this past year after harassing the Philippines, swarming boats, challenging their fishermen and Philippine economic order. And that's when you've got Rodrigo Duterte kowtowing to already. And then they go into Malaysia - unnecessary. Mahathir was looking to, you know, repackage the bargains with China. They introduced sort of new challenges and survey ships in Malaysia. And then they take on Indonesia, which is not even a claimant state. But they sent extra fishing vessels into the exclusive economic zone around the Natuna Islands - very sensitive area for Indonesia. All of these things were unnecessary, kind of unforced.

But China can't help itself. It's trying to impose its sort of claims on historic rights over this vast swath of the South China Sea. And that does mobilize others around it. And everybody is skeptical. And yet, if you look at this new poll that came out of Singapore, which is the most authoritative thing we have - it's the second year running, the ISEAS poll of elite opinion in the 10 Southeast Asian countries. Push come to shove, if the Southeast Asian elites were asked to choose between China and the United States, 7 out of 10 said they would choose China. And that's because they see the Chinese economic future (laughter) - the connectivity. And that's the point - that China doesn't have to win globally here to have a bigger imprint in the region, in the Asia-Pacific. And that's one of the challenges. That's where - so - but the recommendations that John makes - insisting on reciprocity - absolutely spot-on. Erecting high-tech barriers - yeah, we have to look at the costs, but absolutely the right idea. There's a great paper out of IFRI by John Seaman, a King's College professor - was at IFRI last week - on why standards are so important here. I mean, and he, you know, quotes the popular saying in China that third-tier companies make products, second-tier companies make technology, first-tier companies make standards.

So there's a lot of competition going on in areas that are not the usual Washington debate. And then, finally, countering the Belt and Road Initiative in things like the Blue Dot Initiative, which has kind of put a good housekeeping seal of approval on transparent and high-standard development is a good thing to do. But we need a positive gain. This is my last point. We need - as, you know, Nick said, we need to be proactive - mentioned R&D. But we need much more on the positive side. And there, I agree with John today about the Trans-Pacific Partnership. You know, last week, I hosted Randy Schriver. Randy, now out of office, said, if we made one mistake, you know, we did repeal without replace when it came to our trade policy in the region. And we're trying to recover from that sort of step. And that's where, again, China, relative to the United States, has still got a lot of advantages, despite slowing down the rate of growth, despite having lots of internal challenges. So I'll stop there. Great reports, great comments - look forward to the discussion. Thank you, Tom.

DUESTERBERG: OK. Thank you. Thank both of you for your thoughtful comments. John, would you like to respond to...

LEE: Yeah, I'll make a couple responses. First, a technical one on the Chinese debt - Nick's right. China has slowed its credit growth. That's the point I'm making - that it doesn't defy the laws of - China cannot defy the laws of economics. China is slowing because it's got to deal with these sorts of problems. And that's the point I'm making about the notion that China's economy will rise in a way that will consume all. I'm saying it won't, right? I don't know where it'll be in five or 10 years' time. But if you look at its structural issues, its capacity to grow in a way it needs to grow isn't there anymore, so that's the first point. A couple of other points - on the Belt and Road, I'm not sure I disagree with Nick - or I should say I'm not sure that Nick disagrees with me because the argument isn't that the Belt and Road will solve China's problems. The argument is just - it's a couple of things. One, the Belt and Road is partially there to solve the excess capacity problems, or at least alleviate them. But the more important point I'm trying to make in the report - perhaps not clearly enough - is if you spend any time in my region at all, you will hear the Belt and Road is an all-conquering monster that cannot be confronted or resisted. I'm making the opposite point - that it can - because China's capacity to actually achieve what it wants for the Belt and Road is partially based on real material aspects, but it's very also largely based on bluff.

It is essentially trying to get other countries to sign onto a series of agreements and standards and arrangements that suit China and fund a lot of those arrangements even though they suit China rather than the countries. So what - perhaps I'm speaking more from person from that region rather than an American. If you spend any time in my region, the narrative that the Belt and Road is as grand as China says, can be funded in a way that China says and that there - it is - there is no point in resisting that kind of grand policy is dominant. So the report is partly written to sort of say, this is one of the reasons why China had the Belt and Road. It's re-wrapped it into a grand plan or grand strategy. But here are the problems with the Belt and Road, and there are definite ways to counter it. We don't have to match everything dollar to dollar or be everywhere China is, but there are certain definite ways we can counter the effects of the Belt and Road on us. The final things about costs, which was raised both by Patrick and Nick in different ways - for example, I do talk about technological disentanglement in some areas. Of course there'll be costs.

But I think we've got to get around this idea that there are cost-free options with China now. We are engaged in a competition with China, or China was - has always seen itself as being engaged in a competition with the United States and allies. And the technological aspect is a major part of that. If we want a cost-free strategy, we lose - right? - because there is no such thing. And, in fact, China has gained, whether it be in its technological advances in terms of the use of foreign innovation or in the South China Sea, because for too long, we have wanted a cost-free strategy. We have ignored the actual cost we're paying. And we have for too long wanted a cost-free strategy that comes from disruptive counteraction. So the point I'm making is that we do need to have this disruptive counteraction. Yes, we do need to replace, not just repeal. But we do need the mindset of countering and to bear the costs of doing so because the costs of not doing so, which are often neglected, are quite considerable.

DUESTERBERG: OK. Thanks, John. Nick, I want to sort of put you on the spot. You subtly criticized John for suggesting that Belt and Road and the Made in China 2025 program were going to be effective in addressing China's problems. And you've spent a good chunk of your

recent career cataloguing some of the problems that China has, including the debt problems. And you mentioned in your remarks the specific debt problem with local government debt and the off-book financing authorities that they've used. So do you have some alternative ideas about how China is really going to address these problems, especially the debt problem? I mean, John put the estimated total debt in China, public-private, at 300% of GDP. Herb Stein's famous law that something that can't go on forever won't seems to apply here. But we don't really know, as Patrick indicated. But what - how is China going to solve, for instance, the local government debt problem when they're being asked to increase their contributions to social programs, such as health care and pensions, which are way underfunded in China? Do you have thoughts on where China can effectively address these - how they can effectively address these problems?

LARDY: Well, I think, you know, John and I are in pretty strong agreement that one of the major problems China faces is a misallocation of resources - a massive misallocation of resources that started shortly after Xi Jinping came in, and he started talking about making state companies bigger. And so they took a lot of the firms under SASAC, this central organization, and merged them together. The reality is that state-owned companies - the return on assets since the global financial crisis has fallen by half, and the assets that these state companies have have been growing much more rapidly than GDP. At the end of '18, they were more than twice GDP. You know, 230% of GDP was the magnitude of the assets controlled by these state-owned companies. Forty percent of them are losing money, and that's enough to drag down the average returns to roughly 2%. So one of the ways - the only way they're going to start to grow more productively is to have much more widespread bankruptcy of underperforming companies, which would allow the assets of those companies to be auctioned off, go into the hands of companies that could make better use of them, much more extensive use of merger and acquisition activity. I know M&A kind of has a bad odor in certain circles in the United States. But I think in China, it could, again, lead to the reallocation of assets to companies that could use them more efficiently. So, you know, I think it was Martin Wolf a number of years ago wrote the column, it is not surprising that China is growing at 8%. Given how much they're investing, it's surprising how slow they're growing. And that comment has even greater relevance today.

So I think if you move to a system that gradually reduced the excessive claim of state companies on China's resources, you would have - you could get assets into the hands of companies that would use them more efficiently. You could grow much more rapidly than the current 6% or even less, and you would have a stronger fiscal system. You would have more resources to deal with the social problems that you mentioned, and coming up with a very substantial - you know, a very substantial contribution to the pension problem, which is looming. You know, it's not a crisis this year or next, but five, 10 years down the road, when, you know, the number of retirees - I mean, look; working-age population's already shrinking. But the number of workers per retiree will diminish substantially starting in about 10 years. So efficient use of resources is the answer. But I'm very pessimistic about this because Xi Jinping does not seem to be interested in doing anything that would diminish the size or the importance of the state sector. And, you know, the programs that they've dusted off to try to reform state-owned companies - some of them have been in the works for 20 years and haven't worked. So I'm not very optimistic. So my view is, apart from, you know, the phase one deal with the U.S. - you know, that might've - I don't think that would've given the economy much of a boost. I think they were at risk of slowing down more even before the coronavirus came along. So in terms of

headline GDP growth, I'm on the pessimistic side until we see a willingness to deal with their underlying misallocation of resources.

DUESTERBERG: OK. As a non-economist, I'm somewhat amused to see in recent years a increasing commentary by economists on the value of a narrative and how narratives tend to affect financial markets especially. Robert Shiller has made this famous in the last couple of years. I wonder if any of you would like to comment on the coronavirus problem because that seems to undermine this narrative in China that there - they have created a system which is capable of managing the many problems that modern states face. And they've tried to export this idea fairly aggressively and using that argument of sort of inevitability and competence. Does the coronavirus and other problems such as we've talked about - the slowdown in the economy, the accumulation of debt - is that undermining that sort of heroic narrative that they've tried to use to win friends and influence throughout the world?

CRONIN: Tom, I'm happy to start, at least, that discussion. I mean, I do think it's a great question when you think about the desire of Xi Jinping and the Communist Party to control information, so absolutely, and yet, how that doesn't guarantee that you're going to use it well. So the idea that they had a party meeting, they knew the problem was coming in early January. The folks in Wuhan were continuing to say there was no human-to-human transmission afterward. They bungled the information flow, and it causes questions. However, it's the Communist Party of China. They're not going anywhere. So the party's not over - CPC. Xi Jinping may be short-lived in terms of his position. Maybe he will face pressure for - in 2022 and so on. So we don't know where that will go. But I do think it's just a reminder that just because you have so much information security doesn't mean you can use it to effect. And it's really the strategic effect that we're talking about with the economy, with information, with technology. That's what's called into question. And, you know, the coronavirus really does, I think, sow doubt in the region about how much you want to trust the Chinese Communist Party. And at the same time, everybody's open for business, and President Trump's open for business. I think he was out tweeting this morning, we're open for business; I want everybody to know. So everybody still wants to do business with China, but they're not necessarily going to trust the statistics or the data, or they're going to, you know, look to verify. And I think that's the price of dealing with China right now - that there's a question. But everybody has question marks. It's not like China's unique. They just have a unique set of questions.

LEE: I spend a lot of time in Southeast Asia. And, you know, this is where the narrative comes in. And the narrative of China is that they can build a hospital in 10 days. Look how great they are. They can build a bridge in one-tenth the time that Americans build a bridge. So the narrative has been because of the pure material and technical competence of the Chinese, that will allow them to rule. I think what the coronavirus has done is brought the conversation back away from just technical competence to political science or civil society or the way countries or policies are structured. And the reason why coronavirus is the way it is is because of the Chinese authoritarian system set in the initial phases and in a closed society. There was more of an emphasis on controlling messages and suppressing dissent than there was on getting information out there and stopping this virus from spreading. That - I've been in Southeast Asia both on holiday and work for the last three months, so that's actually had quite a profound effect on common views of China. I mean, it's not going to change everything tomorrow. But it's causing people to ask deeper questions about what makes a great power, what provides great regional leadership. What does the nature of trust in institutions actually mean? And I think

that's a good conversation. I'm not taking delight in the spread of this virus. What I'm saying - it is changing the conversation into, I think, a broader one.

DUESTERBERG: Just to pursue this one step further, do, Nick, either you or John or Patrick like to comment or - and speculate on how much the slowdown - economic slowdown in China will be accelerated by this epidemic?

LARDY: Well, I think the first part of any answer to that question is we don't know for sure. We don't know how long the virus will continue to spread. We - you know, the number of confirmed cases has now been going down for almost two weeks, which is a positive sign, but it's not - it's positive. So that's - I think that's the main uncertainty. Even if the virus seems to be coming under control sometime over the remaining part of this month, I think GDP growth in the first quarter - I used to think it would only go down to 5%, but I think now they'll be lucky to get to 4%. And so it's not just the virus, obviously. It's the - you know, the transportation. You know, we have very high frequency data. You can get data on the number of people traveling on the rail system or on the roads on a day-by-day basis and compare it with the day before or the year before. And the most recent readings are that traffic is about 20% of what it was a year ago. So clearly, not everyone's rushing back or is able to rush back to their hometowns to get back to work. So I think, you know, even if the virus is brought under control, it's going to be a while before most firms are up and running at anything near capacity. So that's - anyway, my view of the economic hit has been going up the last week or so.

CRONIN: You know, Tom, it is too early to say. But, you know, the expectation epidemiologically is that this is starting to plateau. And if that's the case, then you could probably look at the first two quarters of 2020 being really bad (laughter) - not just for China but, frankly, for the region - you know, whether it's tourism or Japan's economy or Korea's or Southeast Asian tourism and - you know, all of them are being hurt significantly in the first six months. But I would imagine there's going to be a significant recovery in the second half of this year, barring other externalities or unless this becomes a pandemic that - we're not sure of that - can we - we can rule out, but so far, it hasn't materialized outside of China the way that we feared it might over the last month.

LEE: I'll make a slightly tangential comment. In Australia, there's always been this debate about - Australia, as many of you have known, have taken a very forward-leaning view on many aspects with respect to China on Huawei, foreign interference, et cetera. And the public debate in Australia has always been, if we do that, the Chinese will punish us economically because they've shown in the past they do do that. And the two main ways that China could punish Australia economically and quite easily is to restrict the flow of tourists and restrict students. And both our tourists and university markets are heavily dependent on China. Now, the coronavirus has actually done that, right? I mean, we blocked - we banned flights from - coming in or out of China at the moment. Chinese students are not allowed to come to Australia. And we're talking over a million students here. The point I'm trying to make is I think whether it's coronavirus or whether it's because of geopolitics, a country like Australia - and, I think, much of the world - is now getting used to this situation where things are probably not going to go perfectly smoothly with China economically. And there will be disruptions. Once again, I'm not advocating that I like disruption. What I'm trying to say is I think that's just the kind of world that we live in. And it's something we have to manage.

DUESTERBERG: I'm going to ask one more question, then I'm going to turn to the audience, so if you want to prepare your questions. John, one of your recommendations is for addressing the Chinese - China challenge is to work more closely with allies. You specifically mentioned the Europeans and also focusing on the ASEAN nations. A lot of us have been hard at work for the last several years in the - in trying to convince the Europeans that China represents a real security problem and also an economic challenge as well but haven't had much success. Do you have any ideas about how we can more effectively work with our allies in Europe and possibly in the ASEAN nations as well?

LEE: My praise and criticism of the Trump administration and the president in particular - my praise is that he's prepared to recognize issues and confront them and try to deal with them, which it's not easy to do for a president. My criticism - my main criticism, once again, comes from an ally that works very closely with the United States - is that allies at the moment - we don't know what the institutional intended outcome is of what the administration's doing with the Chinese. So, yes, we know that there's been an economic war - whatever you want to call it - and a fairly modest phase one deal has been signed. But we don't know institutionally where the landing spot is. So even on issues such as intellectual property protection, for example, the Europeans and the Japanese and the Australians haven't really been consulted as to what kind of institutional outcome or enduring solution we actually want or is realistic or is credible. So that's both my praise and criticism of the current administration - that they are confronting issues that previous administrations ignored, in my view, but they're not really taking allies along with them because they're not coming up with what a landing spot would look like that would be of acceptance to all allies and partners.

DUESTERBERG: Patrick, you were in...

CRONIN: I was just in London...

DUESTERBERG: ...Europe last week.

CRONIN: ...And Paris, but I've also dealt with the head of cybersecurity in Australia in the last several months. In general, the United States needs to be able to anticipate problems further down the line, not waiting until they're on the headlines. We need to be working with our allies closely on serious, effective alternatives. And so there were effective alternatives identified some time ago. Australia was selling them to the United States, and we weren't necessarily putting our money there, when you think about building a network of trusted technology, for instance, to provide an alternative. So we have to be engaged with our allies, and we've got to be willing to spend some resources on some effective solutions. We're going to have to make some hard choices because this is private sector-public sector partnership, and it's going to be complicated. But we do need to manage down the risk much better than allowing and browbeating our allies like the U.K. - which they deserve to be browbeaten now for making a bad decision. But at the same time, we have to give them something other than that as an alternative, too. And they're right about that.

DUESTERBERG: Nick, you want to...

LARDY: Well, I think we just had confirmation that John spent a couple of years working in the diplomatic service of his country because he said, well, the U.S. hasn't been able to bring along its allies. It's much worse than that. We have alienated most of our allies in multiple dimensions.

And I think the chance of getting them to cooperate on any unified strategy to deal with China is vanishingly small.

CRONIN: Well, I was trying to take an issue at a time. You know, first of all, strategy's a big issue, right? But, I mean, 5G - there were - there are some alternatives. I mean, the Ericsson-Nokia alternative, had we been willing to put some muscle behind that, not try to buy Ericsson, you know, but to try to work together with others, then that would've provided the U.K., as with France, an alternative that is more trusted technology so that you don't have to have your leading think tanks like IISS, where I worked - have your scholars go out and say, oh, this is a great decision on the part of the U.K. It's not a cyberthreat. It's maybe just this little sabotage problem. Well, first of all, sabotage is not a little problem. It's a major problem. Look at the crypto-story out of the Cold War that's come out with CIA. I mean, the United States - if you're able to, you know, get into a system, there are lots of ways to sabotage information. That's what China's trying to build over the next 70, 80 years, I would submit. And if you want to read more about that, you can see our report, "Total Competition," which we published last month with - Ryan Neuhard and I published on this information-centric strategy that China's pursuing. It's a very serious challenge. And that's - U.K., French, German security officials get it. But the economics don't add up. And that's why, again, we're trying to figure out, can we work to provide alternatives that make sense for both economic and security issues? Because they fuse together.

DUESTERBERG: OK. Well, let's go to the audience. I believe we have microphones, do we not? And I'd ask for you to give your name and your affiliation, if you care to give an affiliation. And try to make it a question and not a statement. All right. I'm going to go right here in front for the first question.

AUDIENCE MEMBER: Chris Macrae, Norman Macrae Foundation. So my father used to work with Herman Kahn in the '70s and '80s. And the idea was, how can we use all this wonderful technology to do great things like ending poverty? And, as you probably know, two-thirds of humanity are Asian, stuck on the Asian continent. The British probably trapped them during the, you know, years of mercantile empires in that. So my question to you is, is there any way we could reframe the Belt and Road - don't necessarily call it that, but actually map across the whole of continents what they need culturally, technologically to actually, you know, achieve win-win? So Joseph Nye says that the whole set of problems to do with sustainability development goals, which most of the field is interested in, require coalitions across borders - not, you know, GDP models within national borders. So that's why I'm wondering if we're missing something in terms of the positive things that could be done if we could somehow recast this to be a worldwide issue.

DUESTERBERG: John, you want to...

LEE: If I understand the question - I mean, I don't think win-win is a technical or technological issue; it's a political and psychological issue, as in, do you want win-win, right? So when the Belt and Road was first introduced as a concept - I know it preceded it, but as a coherent concept - it's not like the entire region or even American allies instantly just rebuffed it. What we rebuffed was aspects of the Belt and Road which the Chinese intended, which is to tie supply networks in a structural way to China such that China was a major beneficiary, to allow China to define standards, which had political and strategic consequences, and to allow China political sway over countries, which had political and strategic consequences. So to me, you know, in theory,

achieving win-win is fairly straightforward, as in, you can work out technically how all sides win, but it's more a political and psychological issue. And unfortunately, that's just foreign affairs. That's just the history of nations, history - the history of man.

DUESTERBERG: OK. Let's go to - on the end there.

AUDIENCE MEMBER: John, I have a finance question for you. After reading your convincing study, it was apparent that Hong Kong would be ground zero. And if that's the case because of the aid to the U.S. currency and so forth, then certainly financial institutions that are centered there, like HSBC and Standard Charter, could have serious difficulties in the future based on everything you put in your report. Do you have any comments on that? Because that would certainly affect London Stock Exchange and other global stock exchanges.

LEE: I'll have a response maybe because - comment as well. It seems to me that Hong Kong was the gateway for Chinese finance in and out, right? Because of its capital account, its closed capital account, Hong Kong was a gateway in and out of China. So, in my view, Hong Kong was much more important to China than many people realize and arguably much more important to China than it is - well, it is more important to China than the rest of the world. To quickly answer your question, yeah. I mean, I - anecdotally, every international major financial entity is looking for a plan B, right? And that is going to be serious for China given the way the current Chinese capital account is managed. I mean, that's - I think it's more a serious issue for China than it is, I think, for anyone else.

DUESTERBERG: Nick, you want to weigh in on that? No? OK. Yes, right here.

AUDIENCE MEMBER: Thank you. I'm a Fulbright visiting scholar from China. And I works in Johns Hopkins University SAIS. There is a very dominant point of view in China that - it goes like this. The only reason that China was treated as a strategy competitor or challenger to the United States is that China is growing so fast because China is going to be the largest world economy in the near future. So a lot of Chinese believe that this is the only reason that the United States want to bash on China. And if this is the case - I said if - no matter what kind of reforms that China is going to take, they were wrong because the only reason is that you're devolving so fast. So the only solution to this problem is stop developing that fast or the collapse of the Chinese economy. So what do you think of this point of view?

DUESTERBERG: Oh, anybody want to...

LEE: Oh, quickly, and then I'm sure someone else has something. But very quickly, I think we've got to get our history right. America spent 30, 40 years trying to help China grow quickly, right? If that narrative is correct in China, why the hell would America done that? It's pretty stupid of the United States. I mean, I think certainly America has switched very quickly and very suddenly - not, well, suddenly but very quickly. And yes, that's going to create shocks for the system and for China. But, you know, we've - as I mentioned, America spent 30, 40 years if - enabling consciously - not just inadvertently - overtly enabling China's rapid growth. But to me, that narrative doesn't quite make sense.

CRONIN: I remember helping the Chinese as they were trying to develop their overseas development assistance, having - I helped set up the Millennium Challenge Corporation based on best practices of development assistance for the U.S. government. And so the Chinese invited me in to try to help them. I was sort of disenchanted, though, when I saw how the

Chinese were trying to look like they were following the high standards of international development but really pursuing competition. I mean, John has it in his report, saying that we're pursuing cooperation; they're pursuing competition. So there was this - that's why there was this shift about - and waking up over the last few years in particular about what China's up to. Yes, some want to keep China down, but that's not where that came from. That came from a reaction to feeling like China's exploiting the rules of an open system or systems that were built for market-based economies, and China's taking advantage of that. And there's a backlash to that. But it is also a regular Chinese propaganda point. And I read, you know, the Chinese - 50 stories a day from out of China, and it's a very common refrain that if you don't like what China's doing, if you don't like the fact that they cover up the coronavirus, then you want to keep China down. No, no, we just don't like what you did with the coronavirus; it's not trying to keep it down. In a few cases, yes, it's true; people want to keep China down. But that's not where this came from, as John suggested. And I would suggest that's not the main thrust of policy toward China.

DUESTERBERG: OK, let's see. Gentlemen here in the second row.

AUDIENCE MEMBER: At the Belt and Road forum last year, a lot of claims and promises were made about how China was going to improve the Belt and Road initiative. How they're going to get greener, more local friendly, basically addressing a lot of the complaints that have been made about it. In the almost a year that has passed since, have you all seen any sort of changes along the lines of China moving towards fulfilling any of those promises or claims that it has made?

LARDY: Well, I'll just make one comment. And I don't follow the Belt and Road so I could be off base. So listen to what John says. I think the main thing we've seen is a slowdown in new projects. I think one of the things that the Chinese publicly recognized was this problem of what other people were calling the debt trap. And so I think they're paying more attention to the sustainable - debt sustainability of the projects that they're financing. I shouldn't say they're financing - they're lending money for. So I would say, kind of at a macro level, that's probably - that's the biggest thing that I've seen, although it's very hard to measure because we don't get accurate data on exactly what the scale of the program is.

LEE: My only response comes from my conversations quite recently with Malaysian, Indonesian, Singaporean and Thai trade representatives, negotiators and politicians, ministers, etc., who've dealt with this, and what they've said is, China has become very sensitive to the debt trap accusation, and they have become a bit more flexible about how things are - how the loans are structured. So they have responded in that sense. Now, for me, I mean, I - you know, I don't really advocate - for me, that's good. I don't really advocate just opposing the Belt and Road; I advocate opposing the way terms, certain terms, are written into agreements. Now, if China is showing a capacity to adapt, you know, on this particular issue, fine. Though I think - I still think there's a broader - there's the deeper issue of, there are clear strategic motivations to the Belt and Road. There are clear sort of political elite capital motivations to Belt and Road. Those sorts of things are very hard to dislodge. But at a sort of technical, tactical level, I do think the Chinese have adjusted a little bit to make terms, you know, somewhat more agreeable, particular on the financial side of things.

CRONIN: Transparency is helping.

DUESTERBERG: OK, let's go to the gentleman in the front row.

AUDIENCE MEMBER: I think there is one key issue haven't been talked about a lot is about the competitiveness, actually, between our K-12 schools compared to also - I mean, I don't want to make it like a competition between kids. However, I think it's - it's almost like a common sense. Eventually, the competition will be won by this K-12 school by the kids, how productive they will be eventually. So will this be studied more intensely, how to make our school more of a merit-based system and to also getting our kids be more competitive in the future - on the future market?

DUESTERBERG: Anybody want to tackle that one?

LEE: I should let the Americans answer this one (laughter).

CRONIN: Yeah. I mean, well, for me, I mean, I come from a family of educators. We're fully committed - I mean, I agree with you in general that, yes, we need to have a merit-based, high-quality public education system for America. My wife and I both went to public schools, you know, growing up, and we both went on to Oxford and went on to achieve things, even through our public school education. I'd love to make sure that the growing inequality in our country is not eroding that, that we're able to put that together, but not in a way that Bernie Sanders has in mind, with - in a way that allows for a market-based system and for people of all political parties to come together and try to figure out how do we make sure that the next generation is able to meet these challenges because they're immense challenges. But I'm optimistic that we'll be able to meet them, but we need to keep giving them the best possible education, you know, to make sure that they have a chance to meet these challenges.

AUDIENCE MEMBER: My question's about the relation between the road and - Belt and Road initiative of Beijing and the free and open Indo-Pacific proposed by Japan and the U.S. My understanding is the purpose of free and open Indo-Pacific is not to counter the Chinese Belt and Road initiative but to show the other options for Indo-Pacific regions. Not only relying on the Chinese Belt and Road initiative, but also to show the other options to be cooperating with free and open Indo-Pacific. So what do you think about the relation between the Belt and Road initiative and the free and open in the Indo-Pacific. Why do you think that the free and open Indo-Pacific could substitute the Belt and Road initiative?

DUESTERBERG: We have two experts here. I'll let Patrick and John comment.

CRONIN: We have a great panel coming up this Friday. I'll be moderating, in fact. I recommend you watch it. And we'll be talking with a variety of international experts about the Indo-Pacific and the free and open Indo-Pacific in particular. You know, these are different concepts. They overlap in the Venn diagram somewhat, but they're different constructs. And even the original Japanese construct for free and open Indo-Pacific - and that's where we stole the name from - you know, was largely a METI and economic concept, as well as a security concept, the democratic diamond's concept originally that Prime Minister Abe mentioned the first time he was in the (ph) Conte. So these are different concepts, but they are positive policies around which we can mobilize others. And we've seen India, and we've seen Indonesia help lead ASEAN, the Association of Southeast Asian Nations, around a ASEAN outlook for the Indo-Pacific.

But we haven't really pulled these threads together very well yet. Partly, we need - just as the Obama administration was guilty of, you know, the resources haven't followed the rebalance or the free and open Indo-Pacific. And we mentioned the Trans-Pacific Partnership and not replacing it with something. It's one thing to walk away from TPP, but then follow up with the -

what you said you're going to do. Let's get the bilateral free trade agreements. Let's figure out what else we can do for big investments. At least put something there to show the long-term staying power. That's what's missing. It's the - it's what's specific. Not the vision - the vision, the narrative, free open inclusive, as the Indonesians would add, all of those are things we can subscribe to - Japan, Australia, the United States, Europe and the others in the region - because they include China. We're trying to provide an alternative, a positive alternative, that we want to be mobilizing around. So it's a good vision, but implementation is where we keep coming up short. And we have work to do.

DUESTERBERG: John, Australia was one of the instigators of this.

LEE: Yeah. Well, to me, the free and open Indo-Pacific is a more muscular reiteration of what the Americans call a rules-based liberal order, right? It's set rules, sovereign equality, openness, underpinned by American power and system alliances, you know, what pretty much existed post World War II. The Belt and Road, I think, it's slightly different. I mean, they're not sort of parallel, opposite things. The Belt and Road to me is a explicitly China-centric model of how economic relations, infrastructure, supply chains, standards, etc., will operate in the Indo-Pacific and Eurasian areas. The one big difference between them is that the Belt and Road, in my view, not only is it specific to a country or it's Sino-centric, but the Belt and Road is designed to be a series of agreements between China and another country of which - the terms of which are negotiated with China. So they are not uniform. But of course, China expects to have the leverage negotiating terms. So I think they're not directly opposing to each other, but they do come from different beginning points in terms of the principles driving them. I should add, the Belt and Road is - you know, Belt and Road is often equated to, for example, the Asian Infrastructure Bank, which China proposed. They're two very different things. The Asian Infrastructure Bank's a multilateral organization with a set of rules, etc. The Belt and Road is very different to that. Instead of bilateral agreements negotiated with China. And I think that's different between a Belt and Road and a free and open Indo-Pacific.

DUESTERBERG: OK, please join me in thanking our panelists for a wonderful discussion.

(APPLAUSE)