

US-China Relations: Policy Recommendations for the 2nd Obama Administration

Welcome & Introduction

(Chano: interpreter) One of the reasons for the SPF to invite them as a group to Japan was a recognition that many talented young researchers are increasingly choosing China as their specialty and that many American China experts have actually—many of them have never visited Japan or seldom visited Japan.

The second reason is that Asia, as a region, is attracting renewed attention in the US policy community in recent years. This is partly due to US rebalance towards Asia proposed by the first Obama administration.

Against this backdrop, there is a growing need amongst the younger researchers in the United States for exchanges and policy dialogues with their counterparts in Japan, which I believe has been missing.

By inviting American China experts who may not have had much exposure to Japan, we hope to facilitate their understanding of Japan as a country but, more importantly, as an Asian country other than China, because Asia is indeed a diverse region.

So that was the idea behind putting together this program.

Today's panel discussion consists of two panels under the theme of "US-China Relations: Policy Recommendations for the 2nd Obama Administration." The younger researchers will share with us their policy recommendations to the second Obama administration.

And you already see Panel 1 panelists on the stage. Panel 1 will give a particular focus on US-China relations—the economic, trade and energy, environment issues. And we've asked Jennifer Turner, Dr. Jennifer Turner, to act as a moderator. She is currently the director, China Environment Forum, Woodrow Wilson International Center for scholars.

We also have as panelists Dr. Derek Scissors, a senior research fellow, the Heritage Foundation, Mr. Nathaniel Ahrens, CSIS, and Dr. Melanie Hart, CAP (Center for American Progress).

In the second panel, the second panel will be giving a focus on US-China relations from the military and security aspect. And the second panel will be moderated by Mr. Yoichi Kato, editor and national security correspondent, the *Asahi Shimbun*. I'm sure you're all familiar with Mr. Kato, but in the field of diplomacy and national security, he has had a brilliant career both in Japan and the United States. He is one of the leading journalists in Japan. Mr. Kato, thank you very much for accepting to act as a moderator for Panel 2.

Allow me to have this opportunity to introduce to you the panelists in Panel 2. In Panel we will be having, in the order of their speech, Dr. Ely Ratner, CNAS (Center for a New American Security). If you could please stand up and show your face to everybody. And Mr. Ian Easton, fellow, the Project

2049 Institute. Thank you. Last but not least, we will in Panel 2 as a panelist Ms. Oriana Skylar Mastro, fellow, Center for a New American Security (CNAS).

So we have seven fresh researchers on the panels. It is expected that they will form policy community in the future in the United States. And I hope that views and policy recommendations of promising American China experts are—we would like to hear.

And I would like to thank everybody to—for coming despite your busy schedules. With a note of thanks, I would like to conclude my welcoming remarks. Thank you.

(Facilitator: interpreter) Thank you very much. That was the introduction from Ms. Chano, the executive director.

So in the interests of time, I would like to turn to Ms. Turner, please.

Panel 1: “US-China Relations: Economic/Trade and Energy/Environmental Issues”

(Turner) Hey. Thank you very much—really, really excited that the Sasakawa Peace Foundation invited me and my other colleagues here from DC.

I’ve been to Japan a number of times. But I work—I do environmental work, so I focus on—with all the Japanese folks in Tokyo and elsewhere who work in China. But just focus on environment. And this trip already—I’m opening my eyes about Japanese and China military and security issues. So I’m learning a lot and I want to thank you very much.

Time is very short. There’s a Chinese idiom—and the interpreters don’t know the Chinese, but it’s “*Qingting dian shui*,” which is literally, “The dragonfly skims the water.” So we don’t have much time so we’re going to first have these three—and then I’ll do a little bit—talk about their area of work, their focus on economic, energy, trade, industrial innovation. And then, in the Q&A your job will be to help us dive deep with the questions. Okay?

Just checking, making sure you’re with me here.

All right. So I’m going to first invite Derek Scissors to make about five, seven minutes of comments and we’ll move—five? You’re too far away, I can’t hit you to stop.

Okay, please, Derek.

(Scissors) I’m going to try to establish, in seven minutes, not five, that there are three possible outcomes for the Chinese economy going forward: maintain its expansion, slow sharply, or stop. And slow sharply and stop are much more likely than China’s economy maintaining its expansion. That’s the bottom line, which I’ll try to get to.

There are a lot of disagreements on policy—economic policy—of course: here, in the US, in China, everywhere. But there is agreement on where prosperity comes from: it comes from the productivity of land, the productivity of labor and the productivity of capital. Innovation is a factor in all those things, so we usually say that prosperity comes from land, labor, capital and innovation.

When I say “prosperity” I do not mean gross domestic product. Gross domestic product is an accounting statistic. It isn’t a very good one and it is horribly misused all over the world, including

here in Japan. I mean something that actually matters to prosperity, like household wealth, we could talk about productivity per worker, there are many things. But when I mean economic expansion, I do not mean GDP, just to make that clear.

So, let's talk about land, labor, capital and innovation. Land is going to be touched on by both Melanie and Jennifer because that's energy and environmental factors that have to do with land. All economic expansion starts with agricultural productivity. In China's case, that was 1977. You have to be able to feed yourself and you have to have extra people who can work on other things. So land is crucial to the beginning of development.

Unfortunately, in the Chinese case resource depletion—both using up of arable land and outright pollution—means that the return on land is now a net negative. So except for property bubbles, which we now are temporary, China cannot count on returns from land in the future. They've depleted their environment too much, used up too many resources.

There's much more to say about land, but I'll leave that to my—other panelists.

Innovation. Nat's going to talk about innovation, so I will again be brief.

The government—the role of the state. If you're looking for a short-term increase in innovation, if you're looking for a single project, the state can lead. But if you want broad and sustained innovation, the kind that drives economic prosperity, it can only come through competition. And that's racing to the moon does not help your economy. You need broader innovation than that. That can only come through competition. And I have a phrase that I use all the time, which is “China likes competition for everyone else.” So when China comes to your country, it's all about competition. But when you go to China, not so much with the competition. And that ultimately means that the government can spur innovation in certain projects but China's—as long as there is a state-led system, a top-down system, China is going to struggle with innovation.

I'm actually writing a paper—co-authoring a paper right now on Japanese innovation and some weaknesses in competition in Japan have similar implications. So if you look at how innovation in Japan needs a boost, the same thing is true in China.

So I've now just dismissed land and innovation as sources of sustained Chinese growth. Land used to be a source of Chinese growth, innovation has not been.

Let's try capital. And I'm going to spend a little more time on each of these because the other panelists are not going to.

In 2002, when we all thought that the Chinese economy was doing fine. In 2002, corporate and local debt in China was quite low and there was no imbalance between investment and consumption. 2013—some people still think the economy—Chinese economy—is doing quite fine. But after 10 years of Hu Jintao and Wen Jiabao, the first and third ranking members of the Communist Party, respectively, we have very high local debt and we have very high corporate debt. The corporate debt can be manifested either as debt for the corporations themselves, which is revealed in studies done by the Chinese Academy of Social Sciences, or in nonperforming loans, which is a longstanding topic in China.

And we have investment being much greater than consumption—the share of investment in the economy is much greater than consumption. But why does this matter?

In 2002, China was able to sustain its growth without very high levels of investment and without very high levels of borrowing, either by local governments or corporations. Now they can't. So wherever we're talking about how well the Chinese economy is doing now, it is weaker than it was 10 years ago in return—in terms of the return on capital.

Now, this is surprising to a lot of people and this is the analogy I always lose—I always use. If I gain 50 pounds, I'm bigger, but I'm not healthier. This is what's happened in China: it's borrowed its way to high returns from capital for 10 years. This cannot last, which means that capital in China is not going to be a source of growth under current conditions.

So the last one is labor. Labor is familiar in Japan as an older society. China is now middle-aged but within a generation it will be old. It will not be rich within a generation, which means the pension burden in China is going to be even heavier than it is in Japan and heavier than it is in the United States. And both of our countries struggle with the pension burden; China will have to struggle more.

So there are possibility of return from labor in terms of greater labor productivity but the pension burden is going to make it very difficult.

The—you put those four things together—negative return on land, China's weak on innovation, the return on capital is declining, and significant challenges to return on labor—you don't have any strong sources for Chinese prosperity going forward.

Now, of course there are reforms that they could take. They could assign greater property rights to rural landowners. That would help land. They could shrink the state-corporate sector—state-owned enterprises. That would help innovation. They could liberalize interest rates. That would help capital. They could transform the economy and move from industry to services so that older workers could participate more fully. That would help labor.

All these things are possible. They're open to the Chinese. There's no definitive outcome. But unless they take some of these steps, their growth will stop—not slow down, stop. And it will stop within five years, maybe six or seven. If they take a couple of these steps, they will have more moderate growth. If they take a lot of these steps they'll be able to maintain their growth for another 25 years. So the spread here in Chinese results is extremely wide and it depends on reform. There's no continuation. They grew for 30 years, they'll grow for 30 more years. That's not how economics works. You pick the right policies, you succeed. You pick the wrong policies, you fail. China could succeed and they could stop entirely.

And I don't have time, unfortunately, to talk about the implications for the US but both the implications for the US and Japan in general are we need to plan for both outcomes. Not collapse or outstanding success. Most likely you're going to get a Chinese economy that stalls or that grows very slowly. That has implications for Japanese and American strategy. The time that China's going to stall is coming pretty quickly, certainly within the next few years. We need to prepare now.

(Turner) Okay, thank you. Okay.

(Ahrens) All right, I'll jump right in. Before I do, I want to thank everyone for coming. I know it was tough to get through the big snowstorm. But I'd also like to thank again Sasakawa Peace Foundation, not only for us—bringing us over on this trip but for organizing this chance to talk to all of you today.

The rise of China, we all know, has created a lot of anxiety and insecurities. And I think we've seen that in Japan but we're also seeing it in the United States. And that seems to have picked up ever since

the economic crisis. There's emerged from the economic crisis this narrative that ties the US and China together, where China's rising and there's a perceived American decline happening as well. And these two are somehow interlinked. And I think you probably feel it here in Japan too, with some of the economic stagnation.

And one of the reasons people get that feeling is they get the sense that China's really moving up the value chain. When China was the factory of the world, the workshop, it was less disturbing to at least a segment of the population that's bothered now. But now that they're rising up, it's become more worrisome, and this is partly because of some of the technological advances that seem to be happening there: things like the recent aircraft carrier operations, things like the Chinese achieving space docking, the supercomputer development, gene sequencing. You get this feeling that China is suddenly having this innovative surge.

You can also see it in statistics. Just a few years ago, if you go back to 2008, Japan was the second-largest economy and was the largest filer of patents, with about 500,000, followed by the US with 400,000. And China was a different—a distant third, with 200,000. And if you actually look at the number of patents granted, there was a much smaller number. They were back behind Germany with about 48,000.

Three years later, in 2011, China is the second-largest economy and the largest filer of patents in the world, with 526,000 or thereabouts. The US is in second, with 500,000, and Japan has dropped down to 300,000.

This is one of those facts. I don't think it's very significant. There's lots of reasons for why this happened. But it is something that feeds into this myth.

Now, you combine that with another perception, that because—we have this feeling that the Chinese central government is very effective when it's working on long-term projects and they put a lot of these technological advancement goals into their various policy documents, into their five-year plans. Their most recent five-year plan actually mentions the word “innovation” 136 times. I counted on a not very productive afternoon. They have these medium- to long-term science and technology development plans. They outline strategic emerging industries, saying, you know, “This is where we're going to succeed. This is where we're going to be No. 1 and take care of our future.”

Combined with the fact that it seems to a lot of people that China has come through the economic crisis probably smoother than most—and attribute that to the focus of the central government and, again, their ability to get these large projects done.

So about a year ago we started a project, also generously supported by the Sasakawa Peace Foundation, trying to see, you know, what's behind this, how much innovation is really happening in China? So we took the case studies of five Chinese firms. We looked at the auto industry, telecom, solar, high-speed rail and the PC industry. And each one of those provides really interesting findings. I won't get into them now and maybe in the Q&A we could see if you're interested in any of them. But the broad lessons we learned was really there's frankly very little innovation or sustainable innovation happening in these companies. There are, as Derek mentioned, you know, short-term gains that have happened, but they are not sustainable. And across all these companies, the greater the state involvement in each one of the cases, the less innovation that was happening. The companies that did succeed were the ones that either stayed arm's length away from the government or succeeded despite Chinese government support for other companies.

And in general, when we're looking at the long-term competitiveness of these companies and companies in China in general, the role of the state is still so strong and there are so many problems in the overall innovation ecosystem that I think the short result of the—the short message from this study was “Don't panic,” you know, “Don't worry.” There's still a lot of problems there and even in—especially in the more complex industries. Whether we're talking solar or automobile or high-speed rail, there's still a huge amount of technology that China is dependent upon from Japan, from Germany, from the US, from Switzerland, and that's where the core technology is. There is still a fair amount of assembly that's going on there.

But one thing that tied all these companies together, all the success stories, was one factor that I think will become an issue. And this is where I will come back to recommendations for the next administration—is access to capital. Most of the success of these companies, including companies like Huawei, the Chinese telecom firm that truly is highly innovative and they do a lot of endogenous or internal innovation, none of these companies would have succeeded without access to massive amounts of capital. And this is now an issue not only for production in China, whether you're trying to sort of become a player in telecom or solar, but I think the issue we're going to face going forward is what happens when all those companies with access to essentially limitless amounts of capital—a lot of it going to state-owned enterprises—now starts looking to invest outside of China. As you've probably all heard, China has this “going out” policy to encourage this outbound investment. And this is going to raise a whole host of competitive issues as we want to ensure a level playing field, in our case in the United States, but it's true everywhere else.

So the US is going to start to really have to deal with the details of how do we ensure that these investments that are coming in are being made for the right reasons, that once these investments happen, that we can ensure a level playing field and that there's competitive neutrality. And we're going to be looking at this in various different parts in the government. But we're also going to be looking at it in our trade agreements.

And I think this is one of the—a closing thought about the TPP. I think this is one of the reasons why it's really important for Japan to get involved with the TPP and to do it sooner rather than later. It's—this March is when we're going to start talking about how we're dealing with state-owned enterprises. And this is where rules of the game are going to start to be set. And I think it's imperative that Japan keeps its role as a rule-maker, is there at the table when these rules are made, especially as we start moving forward into what I think is going to be a huge issue for a long time to come with state-owned enterprises.

And I'll stop there.

(Turner) Excellent. Shall we move on to clean energy?

(Hart) Absolutely. Good afternoon. I'd also like to thank the Sasakawa Peace Foundation for bringing us to Japan. Many of us spend a lot of time in Beijing and Washington. But for myself, I have personally neglected Tokyo, so I'm very appreciative of the opportunity to start fixing that.

I focus primarily on energy, energy and climate policy issues between the United States and China. So my colleagues have given a general overview of the economic and innovation policy situation. I'll focus in from an energy angle.

My institution is closely involved in the energy and climate discussions between the United States and China. We meet frequently with government leaders on both sides. And we really want to see our

two—the United States and China move forward towards more cooperation in the energy and climate sphere. Our two countries are the world's biggest energy consumers and the world's biggest greenhouse gas emitters. So we have a lot to gain from working together. If we can combine the US and Chinese markets, we would have a huge economy of scale, and that would be extremely useful for commercializing and scaling out products such as clean energy that could be used to bring down energy costs and displace coal.

Unfortunately, the politics of doing that are extremely difficult. Whenever it comes time to actually signing deals between the US and China, that has gotten increasingly difficult throughout Obama's—President Obama's—first term in office. Things started out great in 2009. We signed agreements to launch clean energy research centers between our two countries. We signed agreements to launch a shale gas—joint work on shale gas research and development and exploration. But since then we've had a lot of trade disputes and intellectual property rights disputes that have emerged in the clean energy sphere and have turned clean energy, politically speaking, from an area of cooperation to an area of increasing conflict.

Whenever I have conversations with staff in the US congress, they all can cite recent cases of companies that have come to their offices complaining about the risks and damage that they are facing from IPR theft and other problems in the Chinese market.

We had very high-profile trade disputes in wind energy and in solar energy. One dispute that is attracting quite a lot of attention right now is an intellectual property rights dispute with an American company called American Superconductors Inc. and a Chinese company called Sinovel. American Superconductors was manufacturing the computer technology for wind turbines made by Sinovel in China. Based on the evidence that we have, it appears that Sinovel paid off an American Semiconductors [sic] engineer out of Austria to steal source code from their secure facility, transfer it to Beijing engineers, help them reverse engineer the technology, and then Sinovel began manufacturing and installing their own version of the same computer technology that AMSC had been making.

AMSC's stock plummeted and they're having to lay off American workers. They filed Sinovel in Chinese courts and the case was thrown out repeatedly. Some people think that's because Sinovel, one of their investment backers is related to Wen Jiabao, is Wen Jiabao's son—the current Chinese premier.

So whenever you talk to people—the staffers in the US congress—they're hearing stories like this all the time. Everyone knows the AMSC case. And so there is a huge and increasing amount of distrust towards China in the clean energy sphere. These cases are creating the perception in Washington that clean energy is an area in which it is all competition and there is not much room for cooperation.

That creates a major problem when we're trying to cooperate with China on issues like climate change, because when our senators and representatives in congress are hearing only negative stories, then they want to block efforts to use American taxpayer dollars to support Chinese efforts on clean energy or to work with China in cooperative ways on climate change.

So the trade issues are much more than just a commercial problem. They're also reducing our ability to take meaningful steps in the negotiation realm on climate. And so we're having a bleed over of the mistrust on the US side from trade into climate.

China is also extremely mistrustful of the United States. When they confront US trade complaints and US trade disputes, they have a hard time understanding what our problem is. From the Chinese perspective, they see the US as being much higher above them on the innovation chain, much higher above them on the development ladder. And China also sees that US companies are making a lot of money in China at this point in time.

So we're having a hard time getting the message across to our counterparts, into Beijing about just how nervous American companies are about their ability to compete in clean energy and just how much that's impacting our ability to do meaningful cooperation on the climate side.

The Chinese is also very distrustful of US—recent US initiatives to engage China in new forums, such as Secretary Clinton's Climate and Clean Air Coalition or the US attempts to work with China to regulate new—regulate hydrofluorocarbons under the Montreal Protocol. China has been somewhat resistant to those overtures because the Chinese are very suspicious that that is some kind of US trick to trap Beijing into agreeing to things that would pull them towards making much bigger commitments under the big UN FCCC climate negotiations.

So what we're having—what we're seeing at this point in time is a very big wall of strategic mistrust between both countries. There is a lot of activity going on. The US Department of Energy has a lot of wonderful projects. The US Environmental Protection Administration [sic] has a lot of wonderful projects with China. The State Department's running wonderful projects. But when it comes to the high-level politics, the lack of trust between our two—between the US and China is quite low. And that is going to be a really big challenge for the Obama administration in term two.

And at this point in time it really looks like where we have to focus to start fixing this problem is on the commercial side because we're seeing that where we have conflicts on the commercial side, they can really impede action across the range of issues that we want to work with on energy and climate.

(Turner) Okay, excellent. And I know we're running short on time. I'll just say just a couple of things about my area of environment, just to dovetail on what Melanie was just talking about.

I have, I think, the best job in DC, in that I get to bring together government, NGO, business and researchers from around the world who focus on China's environment. And there has been a lot of pessimism around the clean energy issue, particularly over the last year. But that's not the only way that the US side cooperates with China. There's actually a really large contingent of US environmental NGOs that have been engaged in China since starting in the mid 1980s and have really done a lot of work to help promote clean energy laws, biodiversity, a lot of projects on the ground. And that's a very optimistic kind of area. A different way of building trust than just the government to government. I mean—and a big driver has been the climate issue, of course, why these groups have come in, and a lot of activity on energy.

Where I haven't seen as much work—there's some—is on China's water problems, which is actually even bigger, I think, than the air pollution, which of course all of you know is quite big 'cause it's blowing over to you here in Japan.

China—about 30% of their water is so polluted that it really shouldn't be used for anything, which includes industry and agriculture. But we know it is used. About 300 million people in China cannot access clean water. China's also naturally in the north very short of water. And the north is where China's coal is. And one of the reasons that China sometimes has difficulty getting enough coal is simply because they don't have water.

And this is actually a bigger area of my work over the last couple of years—is looking at the water-energy confrontations in China. It's something that, while the Wilson Center's a nonpartisan, non-advocacy, I try to lay out and identify issues for US and anyone else working on the environment to look out. And so just to toss out there and we could talk about it in the Q&A is that China's coal development—it's huge now. I mean, last year China used as much coal as the rest of the world. And coal is not only putting a lot of pollution into the air, but it's using a lot of water. And it's only going to use more. And it's exacerbating China's already severe water conditions.

And I'm trying to highlight with people in my network that trying to help, you know, understand what are the water-energy confrontations. I mean, we think of dams, right? Dams is obviously another water-energy confrontation. Southern China, where all the dams are going in, is facing many droughts. But they're still building dams.

And I want to leave us time for Q&A but just before I open up, can I toss over to Derek.

You gave us a lot of discussion on the labor, the land, capital and innovation. What is—any one or things say about what should the Obama administration be thinking about? You said we need to plan for it, but you have some thoughts?

(Scissors) Well, in the short term for the Obama administration—because President Obama only has four more years—they have to think about either the Chinese or going to start to reform now or they're not. And the US can try to make it more enticing for them and try to be helpful at the margin. But essentially what the Obama administration should be doing—and not that they shouldn't be doing other things on China—is documenting what China is actually doing. Because what China says it's doing and what it's actually doing of course we know are quite different.

That's going to set up the next administration, whoever it is, because that's when the Chinese are either going to continue to progress at a slower rate, progress at a very fast rate—meaning that China will overtake the US in total household wealth—or stop.

So the Obama administration needs to be monitoring more than anything else. And that sounds like it's nothing. But I'll say just to close, American understanding of how the Chinese economy is doing is terrible. And I don't know if the Japanese understanding is any better. I suspect it isn't. But people who use published Chinese economics statistics are—you know, believe in fantasy. So it's not a small thing to actually find out how China's doing and it would be great if the Obama administration could get us set up so that we have an understanding of how they're doing.

(Turner) He's so shy.

Do you have—you skimmed through a lot of the innovation-type issues. Do you have—is there anything you wanted to add? I'm giving you one more chance to talk about some other—anything for the Obama administration to think about?

(Ahrens) No, I think one of the interesting things that may be of interest to people here in Japan with the auto industry is that as we're trying to—this is obviously an industry that China has targeted very consciously since the mid '90s. And as we tried to establish how successful they are, not only in their history but going forward—you know, how are they going to start to get traction in new energy vehicles—what we found is that it's very hard to determine the success of the auto industry because you can look at it from three different directions. You know, on the one hand, this is a perfect model of their international joint venture model, where they said, "You'd have to come in and partner with a

local company. We'll give you access to market and we're going to soak in as much technology as possible." On the financial side, for instance, SAIC has had very successful—financially hugely successful—partnerships with GM and Volkswagen. So on that side, as commercial ventures there are excellent, excellent companies there. But on the technology absorption they've had zero success in internalizing any of that technology. And right now, cutting-edge R&D in Chinese automotive is they're looking five years out. And as anyone here who knows the automotive industry realizes, that's a 20-year-out innovation cycle. And the Chinese are nowhere near that right now.

But at the same time, they have succeeded in creating a massive automotive manufacturing industrial base. The whole supply chain is there. So as a state-owned enterprise, you know, maybe we shouldn't be looking at them commercially but we should be looking at the whole government incentives for the Shanghai municipality. It's been a huge success for Shanghai, if we're looking at it as a local government.

So sometimes it's very hard to determine how we should be looking at the competitiveness of these companies.

(Turner) And Melanie, you gave an excellent overview of the US climate stuff. But I wanted you to talk a little bit about—because it's come up a number of times in our conversations already—on the LNG export question from the US, that some people say the Chinese might want it but I think Japan is quite interested in it as well.

(Hart) Right. So probably for about the past year, in most of my meetings with Chinese energy leaders, the question is asked, "Is the United States going to allow exports of shale gas to China?" I think that's a really difficult and complex question. For this audience, probably the more interesting question is, is the United States going to export shale gas or natural gas to Japan. And that is a very interesting and ongoing debate right now. There was a hearing just last week in the US Senate, led by Senator Wyden on the Energy and Natural Resources Committee. That has become a very complex US domestic political debate. There are oil and gas interests on the one hand that strongly support having a free market regime that allows export to all kinds of countries, including non-FTA countries such as Japan. There are, however, three groups that are currently strongly calling on the US Senate and the White House to impose some kind of constraints. Those are, first, environmental groups that are concerned that exports would increase production and that the increased production would be damaging to the US environment.

Second, there are people who are concerned about the impacts to the American middle class. Last December the Department of Energy released a report that they commissioned by a private sector organization called NERA Economic Consulting. They did a big report on forecasting what the impacts of natural gas exports would be to the US economy. That report found that the net impact would be an economic benefit, however, regular middle-class people probably wouldn't get any of that benefit, they would just pay more in energy prices. So that caused a lot of concern about people who care about the middle class.

There's also a group of manufacturing supporters who are concerned that exporting natural gas would raise energy prices in the United States. That would make manufacturing more expensive in the United States and the US would lose a competitive economic edge.

Senator Wyden falls into that camp. Also Dow Chemical, which was—Dow Chemical's CEO was testifying in the recent Senate hearing.

So there's a very complex debate going on in the United States and it has become more a domestic US political question than an international question. And I think the more that Japan could do to better educate the US about what those energy resources could mean for Japan, the better. And of course if Japan were to join the TPP, Japan would then be an FTA country, under which those exports would automatically be approved to Japan through the DoE and it would not be a question.

Q & A and Discussion

(Turner) Okay, let's open—you've been very patient out there. Would you have some questions for us? And I believe there's a microphone coming around. And if you don't mind, just say—tell us your name and where you're from in—

(Yamaguchi: interpreter) I'm Yamaguchi, Defense Academy. I'm teaching at Defense Academy in Japan. I have this question to Mr.—Dr. Scissors.

I know that this is related to your question—which was posed by Ms. Turner, but you mentioned land, innovation and capital and labor. Land, innovation, capital and labor. And unless there is meaningful reform in China, the Chinese growth in the next five more years or so will stop. But if and when this stop becomes a reality in five, six, seven years' time, if the Chinese growth were to stop in five, six, seven years' time, this could have major implications on the Chinese politics, domestic politics. This could have a major impact on the Chinese domestic politics and this could have major ramifications on international community.

These four areas, the reform innovation in these areas, four areas, for example, be it land, innovation, labor—implementing reform, executing reform in these areas could have major impacts on the economic Chinese domestic politics and society. The reforms could have major ramifications, impacts on domestic politics and domestic society. Land, innovation, labor and capital. If and when Chinese authorities were to execute reform, what will be the domestic and international ramifications these reforms could have?

(Scissors) Thank you for your question. Due to my own unbelievable technical incompetence I missed the beginning so I apologize. If I don't answer all of it please follow up immediately.

I—what I heard was that, okay, if China's growth stops, it's going to have a domestic political implication. And if they choose certain reforms, it's going to have a domestic political implication. You're exactly right. And this is one of the reasons why the leadership is paralyzed, because no matter what way they go, there's going to be a domestic political implication. They can't continue with the status quo. They wanted to. There's now some realization in China that they cannot.

Let's start with the obvious one, which is if growth stops. And my answer to that is, depends on when. If China can get, let's say, seven more years of eight and a half percent GDP growth—I shouldn't use GDP. Seven more years of—see, but everybody understands GDP growth. Seven more years of leading the world in increments to household wealth. So they're still the fastest-growing wealth-producing country in the world. We haven't talked about inequality, which is a big point, but that still happens. At that point, they're a solidly middle-class country and they're also aging. And I have had—and I've shared with my colleagues—a senior member of the Communist Party say, "All we have to do is keep growing until we're old, because old people won't riot." I think it's a perfectly reasonable possibility.

So they're playing a game with this strategy they know is unsustainable, wasting a lot of money, because if you get to solidly middle income and you have an older country, they can avoid the social impacts.

I actually don't think that stagnation is automatically deadly to the Communist Party. It's certainly poses challenges. It will pose a challenge with regard to inequality, which is something they're addressing right now for exactly this reason. Before everybody was gaining, so it didn't matter. But if everyone's not going to gain, we must address inequality.

So I think it's possible that the party can survive the stagnation. That also makes the reform choices very interesting. Rural property rights is what started the Chinese economic miracle. It seems like the most obvious thing in the world to strengthen rural property rights. You know, that's what was brought to Deng Xiaoping in November 1978 and was approved. But it gets at the whole notion of shared land ownership that underlies the party. So it's very difficult within the party.

Interest rate liberalization or shrinking the state sector goes at these state-owned enterprises that have become very, very large in the last 10 years. They were already important but now they're extremely large as well.

And labor, industrial restructuring. China has this idea that it has to produce certain things for itself, it has to be self-sufficient because otherwise it will be too vulnerable. If it moves out of manufacturing into services, it is no longer self-sufficient, it is relying on supply chains outside of China—entirely outside. They're very uncomfortable with that.

So the security side doesn't want one kind of reform. The SOEs don't want another kind of reform. Hardline—I shouldn't say. Communist Party ideologists, which are still important within the party, don't want another kind of reform. In all cases, they're going to have to fight a social battle.

So my short, one-line answer to you is the threat to the party is probably just as big in choosing reform as not choosing reform. It's different, it's different groups, it can be affected by events, it can be affected by where Xi Jinping's power base is. But we shouldn't think that, "Oh, well, they'll never choose stagnation 'cause stagnation is so dangerous." Actually, stagnation and reform all have their own set of dangers and I wouldn't say that one is clearly more dangerous than the other.

(Turner) You could also do—when thinking about the environment, that, I mean, China has really passed a lot of environmental laws and they are getting better at implementing some of them. And the reason that they weren't implementing: local governments said, "Well, if I do this then I can't grow economically." But now they're starting to see the growing number of riots and just how—I mean, you have 30% of your country's water is unusable. That is going to impact your economic growth.

And so I think the kind of reality, that they know it's going to cost more, I mean, they're kind of coming to terms with that. I mean, it feeds in to what you were saying.

(Scissors) No, there's certainly greater recognition of the problem, there's no doubt. And there's more experimentation with possible solutions. But real reform is difficult. That's why you needed an order from the top in 1992, where he went around and said, "We're reforming now or I'm going to have you killed." And people can't do that now. It's going to be a much tougher climb.

So yes, there's greater recognition of reform. The evidence is all around them. But real reform will be difficult, just as it will be in Japan, just as it would be in the United States. And the party might think,

“All we need to do is to get to 2020, 2021. Everybody will be a little older, they’ll be a little richer. That’s good enough. And the other choice is very scary, so no thank you.”

(Turner) Some other questions out in the audience. Way in the back there there’s a gentleman. I’ll bounce back and forth. I like being fair: left, right——

(Sakamoto) My name is Sakamoto. Welcome to Japan. Dr. Scissors, I have a question on the Chinese economic growth.

When I talk with a Chinese friend, they say that they have still room for more urbanization—labor force still in the rural area—and more service sector. So—and furthermore, they have a rather, what shall I—room for monetary—fiscal policy. So there are a lot of optimistic. But what do you think this kind of thing. Thank you.

(Scissors) It’s good to see you, professor. We’ve met in Washington.

They certainly don’t have room on fiscal policy. This is just a fib. Chinese debt is not held at the central government level, so if someone grabs the central government debt and says, “Look, they can expand fiscal policy”—it’s held at state-owned enterprises and it’s held at local government. China is extremely highly liquid. On some measures it’s three times as liquid—meaning the money supply is three times bigger as a share of the economy—than in the US. And the US is not suffering from too little liquidity. The US is a very liquid economy and China’s much more liquid.

So you can’t add money supply effectively and fiscal debt is also very—is very high, it’s just not high at the central government level.

There are of course things that the Chinese can do. It’s absolutely true. It may be that untapped rural labor could help them demographically. The problem is we don’t know the age structure of the rural population. So if the rural population is younger than the urban population, this is wonderful. But if the rural population is made up of all—and I mean no offense, I’m almost 50—is made up of all 60 year olds, then they really can’t help the urban population and the labor pool.

With regard to services, that’s absolutely true. If China is willing to move from manufacturing to services, more older workers can contribute, productivity will rise, that can drive Chinese growth. They have been really unwilling to do that because they think—there’s a belief that manufacturing is the core of national strength, it employs more people and that that kind of transformation would be very wrenching and difficult. It would absolutely boost Chinese prosperity. But it—there are political challenges that get in the way.

(Turner) Okay. I had a question—someone. How about I take these two questions. So we’re a bit tight on time, but—so if you could both ask a quick question, we’ll gather two together, okay?

(Tsuda: interpreter) Thank you. My name is Tsuda. I’m a general citizen. Perhaps I should not be asking a question but allow me to ask a question nevertheless.

Nuclear power, whether it’s innovation- or energy-related, but we have light water reactor (LWR), we have in Japan. But in China they have the lithium reactor. I mean, all the technology, it seems they are getting from the United States, according to my friends in Shanghai and according to my friends in the United States. In the nuclear power, it seems that the China and United States are working together to produce the next-generation nuclear power reactors. I know that China is paying for this, I mean, according to the Chinese. And there will be Chinese researchers doing research on this and the

United States is asking China to provide them with the result of the research activities that are taking place in China. What is going on here?

(Turner) Can you pass it? We'll just gather two real quick. Yeah.

(Audience member) Thank you very much. Dr. Derek Scissors, I enjoyed your presentation. And you talked about the right policies, economic policies, which make success and the failed policy—and the wrong policies, which can cause failure. But my question is since the crisis—2008 and 2010—do you really know what are the right economic policies and the wrong economic policies. Thank you very much.

(Scissors) Can I—I'll just answer that quickly.

(Turner) Yeah.

(Scissors) Actually, I don't—I finessed that whole question because I'm afraid if I take a position on that, Melanie will come over and hit me, since she and I do not agree on what the right and wrong economic policies are. So my suggestions for reform at the end might be the wrong suggestions. What is not as arguable and what is much more founded in broad consensus is we know where prosperity comes from and we know that the trend for China is actually weakening across the board in these areas.

Now, how to respond to this? You're right. That's—I have an opinion. I offered some examples. Other people could have different opinions. This is part of the difficult—of making economic policy decisions. But—so, well, you and I can dispute this. You can say my examples of what will work in reform aren't the best examples. I agree.

What is obvious from the evidence is that the Chinese economy's actually structurally weakening. Now, you have cyclical turns, growth can be higher or lower, they don't tell the truth about their growth. That's a different story. But the economy is structurally weakening. So something different needs to be done. Whether it's what I suggest or what you would think or what Melanie would think is different. My main point that I want you to take away from is that the structural weakening is occurring and they must respond in some way

(Turner) So Melanie, do you want to smack him or do you want to give an answer? All right.

(Hart) So I'll respond to the nuclear power question. That's an excellent question and I know that it's question that is extremely important to the citizens of Japan.

The United States and Japan are in very different positions when it comes to energy right now. The United States has undergone a shale gas revolution that no one could have predicted. Because of our shale gas revolution, we have the cheapest natural gas supplies in the world—in the developed world—and that has done great things for the US economy, that has presented great challenges to nuclear power in the United States.

We have—like Japan, we are very concerned about the safety of nuclear power. Because of that, it is very expensive to build a new nuclear reactor in the United States, because those are very complex projects that have to be held to very high safety standards. And when the—when US businesses and government officials have reviewed the plans for new nuclear reactors, they have found that it is impossible—almost impossible to—for that to be cost-effective, because it is almost impossible for them to compete with shale gas and coal in our country.

That means that companies in the United States like Duke Energy that specialize in nuclear technology, they need a different laboratory. Their engineers have nowhere to practice, they have nowhere to experiment in the US market. And so they're going to China and doing a lot of cooperative projects with the Chinese, because China has very ambitious nuclear development plans. And when the US and China work together on nuclear power development, China benefits from US technology and the US also benefits from having that laboratory in which they can do research and development and work out newer designs.

However, there is a big element of concern. That element of concern is China's Indigenous Innovation Program. China's Indigenous Innovation Program also applies to nuclear power.

In Japan, after Fukushima, the reactors—my understanding is the reactors were based on Westinghouse designs from the United States. So the United States was working very closely with Japan to respond to those accidents and to work collaboratively to put the best minds in the world together towards figuring out how to respond.

China is moving towards indigenous reactor designs, and that is a great concern for many in the United States because we do not want to see a nuclear accident in China based only on Chinese designs that the international community does not have a lot of experience with. Just like in Japan, we want to have this situation where great minds around the world are working together on these designs, so that if anything goes wrong we have that great pool of talent to draw from on the accident response.

So the US and China are working together on nuclear technology. However, China has shown interest in pulling apart and developing their own indigenous designs. That is a very big concern of ours from a safety standpoint.

However, I would not get too excited about the fact that some of China's designs are a next-generation version. My understanding is that next-generation doesn't always mean safer. I would say that a nuclear reactor based on current Japanese technology with extremely tight safety standards is going to be much safer than something based on later-generation designs with a more weaker safety system.

China has a lot of problems, not only with safety standards but also with supplying the personnel that can actually operate those reactors, much less react to an accident.

So in the nuclear industry, it's as much about the "software" side: the regulatory side, the manpower side, the design part. That is just as important as the actual technology. And so that's where we really need to—the US, Japan and the entire global community—be focusing on making sure China develops the software side to match the hardware.

(Turner) Okay, we've just got a couple of minutes. Probably time for one more quick question or two really quick questions. Depend how quick you are.

Yes, sir. And she's coming up with the microphone. Thank you.

(Numata) Sadaaki Numata, a retired diplomat. Is there any possibility for trilateral cooperation between Japan, the United States and China? Or is that a dream that will never come true—on energy, climate change and so forth?

(Hart) I think we're in—we actually have a unique opportunity for trilateral cooperation because for many years Japan was doing great on climate and the US and China were the ones facing big

challenges. Now, Japan has new challenges. The US has new opportunities because of shale gas. China has new domestic pressures to do more on climate because of their environmental problems.

So we're at a great point in time where all three countries are having to—or are at a transition point in terms of the challenges they're facing and the policy options that they may have on the table.

So I personally am very hopeful that if we can get the commercial side right, if we can do more in the very near term to cooperate in a very—in a win-win way on the commercial side so that our politicians can have a better framework for the negotiation on the climate side. We should have a lot of room to work together.

(Turner) Maybe we could grab one more question. One more question. You guys are—oh, right at the back. This is—someone different still? Okay, I want to make sure we give a—

(Takahata: interpreter) Thank you very much for this very last chance. My name is Takahata from *Sankei Shimbun* newspaper. It's about the US external and foreign policy, be it economy, be it trade or be it foreign policy or be it security—includes alliance countries like Japan.

We respect the United States because you're not just interested in profit making. US is very interested in creating new norms, international rules. You actually teach about new rules, norms to other countries.

Now, China is different from other democratic nations, and this was cited by one of the panelists. They lie, they try to steal technologies from other countries. They're actually not very straight, honest people.

Now, in the case of the United States, when you deal and negotiate with the Chinese, if you—I think you have the face of the businessman who want to create a win-win relationship. You also have the face of someone who want to teach something to the Chinese about international norms. So you—so in the second term for Mr. Obama, you're in a position to make recommendations to the government, so how do you strike a balance between the US as a tough negotiator in business terms and also US as a teacher of international norms.

(Scissors) That is a very difficult question to answer. Jennifer, why did you ask for a last question.

(Turner) 'Cause, you know, he looked—he was tall. He looked like a closing pitcher.

(Scissors) I mean, there's a—I'll tell you the truth, the truth—practical matter. There's very little temptation in the US to try to teach China anything anymore. There's a lot of frustration, there's a lot of just wanting to follow US self-interest. There's certainly not a lot of receptivity on the Chinese side to be taught and there never has been.

So as a practical matter we're not going to be striking any balance because we're not going to try to teach.

One thing I will say on the econ side, which is my area, the TPP can sort of serve as an indirect teaching mechanism. If it can be successful, it's a group of countries that are going to benefit from a different way of running their economies and governing trade. And instead of telling China, "You should do this," just show them something different that works.

So I think in direct interaction, trying to teach China—no one's going to try to do that in the US. We're very frustrated on a number of bases. Of course, Japan has its own frustrations, which are in some ways worse.

But indirectly, in US interaction with other countries, including Japan, perhaps an example can be set that over time will have some effect. That's a very weak answer, but you asked a very difficult question.

(Turner) And I have to—I'm going to answer a little bit to make it a little bit—I like to end on a somewhat happy note.

I think—'cause I work on energy and environment, which actually keeps me very optimistic—you know, with—China has been very open to working with US. Not just US government but US environmental NGOs. And in terms of, like, looking for ways to, you know, create better regulations, better laws. And, most strikingly, there's a big issue about China's overseas investments and how they're impacting the environment in Africa and other countries.

What's been intriguing to me to see is that Chinese Exim Bank and Chinese companies have actually been very open to some international—US environmental NGOs coming in and talking to them and kind of engaging them on how to improve their environmental footprint.

And they're approaching them not just saying, "Oh, we're going to teach you a lesson," rather, "Are you not concerned about your global profile?"

And, you know, so I mean it's—there is this openness. And I've found that the environment—which is why I'm—I have kind of a happy job in DC—is that in the environment, Chinese government and businesses and researchers tend to be a little bit more open.

All right, was that a happy note? Period. Happy note.

I want to thank all of you for some really good questions. And don't move, we're going to switch panels and we'd love you to stay for the second one. Thank you.

(Facilitator: interpreter) Thank you very much to all the panelists. Thank you very much. Could we have a round of applause to all the panelists once again, please? Thank you very much.

We'll be asking members of Panel 2 to take the floor so if the second panel could come to the stage, please. Thank you very much.

Panel 2: "US-China Relations: Military/Security Issues"

(Facilitator: interpreter) Thank you very much. We'd now like to go on to Panel 2: "US-China Relations: Military/Security Issues." The panel session will be moderated by Mr. Kato, editor and national security correspondent for the *Asahi Shimbun*.

Again, at the end of this session, we will have a 30-minute Q&A and discussion period. So without further ado, Mr. Kato, please.

(Kato: interpreter) I hope you can all hear me. I was asked to speak in English, so I will do so.

(Kato) ——do moderate in English, so bear with my speaking English.

The previous panel was fascinating, I think, and I think this panel will be better. And this panel will look at US-China relations from military and security perspective. In other words, to analyze the military and security policy aspects of the US pivot or rebalancing to Asia-Pacific.

This will have an enormous impact on the defense planning of government of Japan, especially when, as we all know, that both governments have just started the process of reviewing the guidelines for defense cooperation and also the government of Japan alone has also just recently decided to review the multi-year defense plan, National Defense Program Guidelines (or Boei Keikaku no Taiko).

And we are very fortunate to have three rising stars on the US-China relations from Washington, DC, and the opportunity to listen to their views and insights into those military and security issues that the United States faces and also Japan does.

And I suppose that the views and insights we are going to hear will be somewhat different from that of familiar big names, from inside beltway and the usual suspects. And I will ask each panelist to speak about seven minutes and perhaps a little bit slowly because of the—for the sake of translation.

And just quickly, to introduce the three panelists. My far right, the Dr. Ely Ratner. He's going to speak about US foreign policy, the rebalancing or pivoting. And next is Mr. Ian Easton. He'll be talking about military capability of China. And finally, to the right of me, Ms. Oriana Mastro. She's going to be talking about specifics of US military operations, including "air-sea battle."

So without further ado, Dr. Ely Ratner, please.

(Ratner) Great. Thank you very much and thank you to Sasakawa Peace Foundation for the opportunity to be here today to share our thoughts with you and also for this great trip that they've organized for our delegation. It's a real learning experience for all of us.

I've been asked to provide the broader context of the US strategy of rebalancing to Asia that really sets the parameters of the US-China security competition in Asia that Ian and Oriana are going to address next.

And so let me just begin by underscoring the point that the rebalancing strategy to Asia is not a response to the rise of China nor to Chinese aggression in the last couple of years, that this is a policy that was born of the fact that the United States was winding down wars in Iraq and Afghanistan and, for the first time in a decade, had the opportunity to reassess how the United States should be expending its time and its resources in international politics. And the Obama administration came to office believing (1) that the—that Asia was going to be an incredibly important region—sure. Sorry, that Asia was going to be an incredibly important region for the future of US economic and security interests, and (2) that the previous administration had on some aspects underinvested in that region.

So the rebalancing was an effort to increase United States economic, security and diplomatic engagement in Asia.

Now, we can debate about, you know, how the policy has gone so far. What I want to do today is talk about what I see is really the two most important challenges for the United States, looking forward, for the rebalancing policy in the second Obama administration.

The first is going to—and I'm sure this is going to come up in our discussion—the first challenge is going to be how the United States should go about reconciling the rebalancing, deepening its engagement throughout Asia while maintaining stable US-China relations. And I think it's been clear

that many people in China, the majority opinion, has seen the rebalancing policy as an effort to contain China, both that the United States is pushing countries in the region to challenge China and that countries in the region, because the United States is back with more military presence and otherwise, are feeling emboldened to challenge China themselves.

This is a perception that I believe is incorrect but is deeply held in China. Public opinion polls, to the extent—they're not always terribly accurate—but to the extent that they are done, have reflected among the Chinese people perceptions of greater hostility in the US-China relations over the last couple years. And as far as we can tell, these views are not only held among the Chinese public and on—in Chinese nationalist newspapers and microblogs, but also among leading Chinese officials, leading Chinese intellectuals, academics and strategists.

At the same time, if you think about the role of the United States engaging with partners and allies in the region, on the one hand, our allies and partners in the region have welcomed the US presence. They've seen it as a stabilizing factor and on the whole have appreciated US support for regional institutions and for building some of the norms and rules that one of our audience members spoke about just now.

However, they also—every country in the region sees China as an important partner. And so they don't want to have to choose between the United States and China and they don't want to see an overly adversarial dynamic develop between the United States and China.

So when we put this all together, what we have is that the United States is going to have to find a way to continue deepening its security relationships in Asia and Southeast Asia, which it will continue to do, deepen its engagement in regional institutions, which it will continue to do. But at the same time, reconcile that with, in my opinion, what we're going to—likely to see, which is going to be an increasingly insecure and in some instances an increasingly hostile China. And maintaining a stable—if not always positive, but stable and regularized relationship with China as it deepens that engagement is probably the No.1 challenge in US Asia policy. And I think we're likely to see that going forward.

The second challenge that I'll mention—it's going to be somewhat different than some of the war fighting analysis that we may get next—is that for the United States to actually succeed in its security strategy in Asia, what I think leading and—thinkers in Washington are beginning to realize is that the rebalancing in Asia is going to have to be a multifaceted strategy, and in particular, that it's going to have to have a much stronger economic component than what we've seen to date.

There was a critique from many in the region that the rebalancing strategy in—at the beginning of the Obama administration as it developed was overly focused on security and a broad recognition that for many countries in the region, particularly in Southeast Asia, that economics is the lifeblood of that region and the United States had to be more in the game there.

And so, you know, we often hear this perspective from countries in the region, where they say, “Well, the United States is the security provider and China is the market and the economy, and we look to the United States for security, we look to China for economics.” And I think from a long-term strategic perspective from the United States, that's not a winning formula and that the development and the deepening of the security relationships that we're looking to undergird here in Northeast Asia, also in Southeast Asia, the regional institutions, they have to be based upon a strong economic relationship.

And therefore, as we think about things like TPP and trade policy and Japan's role in them, we need to be thinking about not just this as an economic argument or as a trade argument, but as really those policies which will undergird the long-term US commitment and US leadership in the region.

So let me leave it there and look forward to your questions.

(Easton) Okay. So I've been asked to address Chinese military capabilities. This is obviously a very controversial topic and it's a difficult topic to address in just a few minutes. I think one of the reasons it's so controversial is because it centers around or it hinges upon two major factors—major factors for the public and major factors for those that study the Chinese military or the PLA full-time for a living.

For the public, I think how you view Chinese military capabilities has everything to do with how you view China. If you look at China and you see a friend or a partner, you are much more likely to de-emphasize or ignore Chinese military capability threats, even when your best information shows you that the Chinese military is truly capable. And of course the opposite is also true. If you view China as a competitor, as an adversary, as a threat, then you are much more likely to over-emphasize or exaggerate Chinese military capabilities, even when your best information shows you that maybe there's some serious weaknesses there.

And so I think that's the first point.

The second point is for those that study the PLA, the Chinese military, for a living—it's a small community in DC; I assume it's a small community here in Japan. For those that do it full-time, I think it's a different kind of bias. In my experience, a lot of how people in this community view the Chinese military—I think that depends a lot more on what part of the Chinese military they study. So, for example, those that study the Chinese ground force, the Chinese army, or the Chinese air force, they tend not to worry very much because they see a backwards Chinese military and they see capabilities that really can't compete. Those that study the Chinese navy, I think they're somewhere in the middle. I think, depending on what part of the navy you study, for certain parts you worry and then for other parts you don't worry at all. And then for those of us that study the Chinese Second Artillery Force or the Chinese General Staff Department's cyber capabilities, for example, or their intelligence capabilities or the General Armaments Department's space capabilities, for this community of analysts, I think they worry a lot more.

Now, why worry? We worry because, unfortunately, there is the possibility that at some point in the coming years, our countries could have a war with China. We don't know when this will happen, if it happens. We don't know how it will happen, if it happens. We don't know how likely it is. But we can imagine it happening, on the Korean peninsula, for example. We can imagine it starting over the Senkaku's, for example. We can certainly imagine it happening over Taiwan. And I would argue there are many ways it could happen that we haven't thought of yet.

Now, of course we don't know what the probability of this is. Hopefully, it's very, very low. But we know it's not zero. And so that's why we think about these issues.

Now, something else that we worry about is the collapse of the Chinese government because obviously China's not a normal country. It doesn't have what we consider to be a legitimate government and it's taken a lot of policy courses that has led to a lot of misery, a lot of unhappy people in China. When you look at the amount of "sudden mass incidents," which is their description for riots, it's alarming.

And so some people worry that the Chinese Communist Party will collapse suddenly. I think if there's a sudden collapse, then that could be very problematic. I think what is more likely to happen and what's more—what hopefully will happen, is a gradual political reform.

Now, I think this is possible because I lived in Taiwan for almost five years. And if you look at the example of Taiwan, Taiwan is an ethnically Chinese country—because remember, Taiwan's official name is the Republic of China. Ethnically Chinese, it was under an oppressive Leninist political system, just like China is today. It was going through a period of rapid economic growth with social friction and also some terrible environmental problems as well, just like China is today. And over a period of a decade or two, it successfully turned itself into a democracy.

So I'm hope—I hope—I'm certainly optimistic that the same thing could happen with China. But of course it hasn't happened yet and so we have to hedge.

I would argue that for the second Obama administration in the coming years, there are several things we need to do to hedge, to deter Chinese aggression.

The first thing we need to do, I would argue, is to make sure there are shelters for every fighter aircraft on every air force base, naval base and Marine Corps air station within range of Chinese missiles. I think that should be our first priority.

And I will leave it at that. I'll turn it over to Oriana.

(Mastro) Okay, thank you. I was asked to talk a little bit today about Chinese strategy and US responses to it. I think the bottom line is that I believe the elements of competition have taken over the US-China relationship. This is primarily because China's strategic vision is one in which it is dominant in the region. The idea is that the international system will become multipolar, and that's somewhat inevitable. And Chinese leaders believe that China should be one of the preeminent poles. Even more so, they believe that China should be probably the strongest and most influential of those poles.

The bottom line is that China hopes that in the future the United States will disengage militarily from the region and the United States is determined to stay. And this is an underlying dynamic that creates tension in all aspects of policy with China.

Of course, there are areas of cooperation and mutual interest. But I think for the second Obama administration, the idea that we could cooperate with China on a range of security issues is now thought of as the mistake of the first, especially of the first year.

One of the main reasons for tension when you look at the military strategy is what we call in the United States China's A2AD strategy or an anti-access/area denial strategy.

It's important to not that the Chinese don't call it this. From the Chinese perspective, this is active defense. But for the United States, when you look at the capabilities that they're fielding, they're designed to deter, disrupt, delay and deny US forces from operating in the theater. And that's why we consider it an A2AD strategy.

But before we can think about ways to deal with this challenge, it's important, at least in my mind, to offer to you my characterization of the A2AD strategy. I believe there are four pillars, four distinct pillars, that we can think about in terms of what China's doing to prevent access to countries like the United States in times of conflict.

The first pillar I call the “geographic pillar.” This is the idea that the increasing time and distance required for the United States to enter into an area of conflict is a vulnerability and that China can delay the United States’ forces from arriving and thereby achieving their objectives before the United States can respond.

The second I call “kinetic,” more easily thought of as sort of the basic military force. That’s the idea that China can use conventional precision strike systems and other basic weapons, attack United States, such that it makes it difficult for us to maintain operations or enter the theater.

The third pillar is political, and this is the idea that China hopes to exploit perceived weaknesses in US relationships with its allies and friends in the region such that in a conflict other countries don’t want to be seen as supporting the United States, either logistical support for the conflict or even political support.

And the fourth pillar, which I think is the most important and the most ignored and the hardest one to deal with, is what I call the “deterrent” component. This is the idea that China wants to make involvement so costly that the United States will self-opt-out of any contingency, that the United States will decide that a couple of rocks in the middle of the ocean might not be worth it and therefore doesn’t even try to access the environment to begin with.

And I can offer in sort of Q&A some of the specifics of military systems being fielded. But given the time I’m going to leave those four pillars for you to think about.

I think so far, for the second Obama administration and the last year of the first, US strategy has been trying to address these four pillars. If you look at the first, geographic, in order to counter any efforts to keep the United States out of a theater of conflict, the United States is thinking about fore-deploying more assets to the region. The detachment already deployed to Australia is one aspect of this. The United States is also considering “places not bases,” or other countries of operation and access. And to my Japanese friends, I would just say as the United States is pursuing friendships and ties with countries—what we consider out of the threat ring or in Southeast Asia, this doesn’t detract from our commitment to Japan. It only enhances it.

In terms of the kinetic aspects, the United States is continuously developing high-tech systems in order to counter a lot of China’s systems—having our own advanced fighters and ships and things of that sort.

Politically, I think the State Department with the rebalancing has made a sincere effort to engage the region more than it ever has. And my hope is that the second Obama administration will continue along this path.

We had the secretary of defense met privately with all the defense ministers of ASEAN for the first time and Secretary Clinton embarked on many trips to the region and it’s really important to maintain that engagement.

The last one is about promoting and maintaining US resolve. And I think this is one of the most abstract of the concepts. It’s important for the United States to understand—and the military—that the environment has changed. We can no longer operate without costs. Ian and I have this debate about hardening of aircraft shelters and I agree we need to protect our forces. But in the end, the military and the United States is trying to return to a previous time in which we could operate with no concern for our safety. It doesn’t matter how many, you know, tons of concrete you pour, under Kadena, that

is no longer the case. And so we need to accept the fact that there is risks in operation and we can't go back.

And if we want to protect our bases, in many cases being more acceptant [sic] of escalation is the best way we're going to deter war.

A country like China introduces risk on purpose in order to increase the risk of escalation so that their opponents back down. If you look at the history of wars, countries haven't attacked certain places not because they couldn't but because they understood the escalatory prospects of that. The United States didn't attack the air bases of China during the Korean War. China didn't send troops in during the Vietnam War, not because they couldn't but because it would be too costly in terms of escalation.

So in order to show our resolve I think we have to think more broadly and strategically about how to do that. And air-sea battle is one way in which the United States' military has tried to think outside of the box.

Just to close, air-sea battle is a concept of enhancing the US military's ability to operate jointly. If you think of things the air force and the navy haven't done in the past but could do in the future, that's air-sea battle. We want submarines to be able to talk to aircraft, aircraft to be able to send targeting packets to surface ships. It's a basic operational concept to reduce the costs of operation and to reduce the critical nodes so that if one of those nodes are hit that it doesn't limit our access or our ability to operate.

So I'm going to stop there and I'm looking forward to any questions the audience might have. Thank you.

(Kato) Thank you very much. The three panelists, yeah. Thank you very much for keeping the time. It's—you did an excellent job and I think every one of the presentation was very concise and well organized and right to the point.

Let me just, before taking questions from the audience, let me ask one question each to each panelist from my point of view.

First, Dr. Ratner. You know, I was invited to the workshop to review the rebalance organized by APCSS in Hawaii, that's a part of the research and educational arm of Department of Defense, last fall. And the representatives from 14 countries in the region were invited, including myself, and did a review work: what has been accomplished and what's still remaining challenges for rebalancing after it was announced a year ago. And the basis—the consensus view was that regional state basically welcome the US rebalance to the extent that it enhances its presence. But there are certain concerns and skepticism. And one of them is that, you know, the rebalance exacerbate the strategic distrust between United States and China. And one of the big names in Washington, DC in your field, Dr. Kenneth Lieberthal of Brookings published a report a couple of years ago with his counterpart in China, Dr. Wang Jisi of Peking University, about this mutual strategic distrust between China and the United States and even though both countries can operate day-to-day diplomatic issues fairly well, but when it comes to long-term strategic intentions of each country there is really deep-seated distrust and that could really damage the relation management.

And let me ask you, how do you see this argument of mutual strategic distrust between China and the United States and rebalance—the current rebalance—actually exacerbate this strategic distrust?

(Ratner) I think that's a great question and in many ways that gets to the issue that I was talking about, about trying to strike the right balance between engaging more deeply in the region, without crossing a line that leads the US-China relationship to spiral into a zero sum competition.

Let me just make two comments, one related to this particular issue of distrust or mistrust and another related to how I would think about reconciling some of the ways in which this engagement is going to exacerbate Chinese insecurities and in many ways probably lead to increased tension between the United States and China.

The first. I would argue that I think the United States and China actually understand each other pretty well. I don't think we're in an area of mistrust. We have very extensive dialogues across a large number of security issues. I think we're relatively clear where we are on different issues. So I understand the attractiveness of thinking about mistrust, because mistrust is something that you can work through with dialogue and somehow come through to a much more cooperative environment. I think what we're facing now is heightened strategic competition based upon divergent interests, not a matter of just simple misunderstanding that can be resolved through dialogue.

That being said, I think as we think about the US-China relationship or as analysts look at the relationship, the point that I always try to make is that there's a difference between the geopolitical competition on the one hand, whether it has to do with Iran or North Korea or the Senkakus or South China Sea or even places like Sudan, as well as some of the tensions in the bilateral relationship, with the actual institutionalized bilateral relationship between the United States and China. And one of the things that we've seen over the Obama administration is that even as the geopolitical issues and some of the bilateral issues have gotten even more intense and our countries have diverged more, that the actual institutional engagement of the relationship has gotten stronger. It has gotten deeper than it's ever been in the history of the relationship. And what that has allowed for to date is that even though we have this level of competition, it's been managed.

And so I think as we think about, you know, is the US-China relationship getting more competitive? Is it heading toward an environment of hostility and conflict, I think the place to look is not, "Are we disagreeing on international issues? Is the rebalancing causing tensions in various parts of Asia?" I think the place really to look is, "What is the institutional relationship between the United States and China?" And so far that institutional relationship has remained strong. I think that's what's allowed for, often behind the scenes but very careful, very close management of difficult issues. And I believe both sides, both in Beijing—leaders in Beijing and leaders in Washington remain committed to keeping it that way. If either side decides that's not in their interest anymore, then we're in a very difficult position.

But I think as long as we're focused on managing the relationship and keeping that institutional connection, then we're likely to get through this increased tension.

(Kato) Thank you.

Then, Mr. Easton, since we just have seen a nuclear test in North Korea, we are in Japan very nuclear conscious right now. And let me ask you about the nuclear capability of China.

And the United States and Russia have entered into a new round of nuclear arms reduction talks, I suppose, and discussing—decrease the number of the nuclear weapons each country has. But China is not involved. And I've been asking government officials in the United States, when United States get China on board. And the answer I get is, "Not yet."

And I wonder, when do you think the United States gets serious about getting China in this strategic arms reduction or arms control talks.

(Easton) Well, it's a very good question and I think the answer is we should have done it years ago. We haven't and I don't know why because I don't know what Chinese nuclear capabilities are and I'm not convinced anybody knows what Chinese nuclear capabilities truly are. I don't think we have a good idea of how many nuclear warheads that they have. I think we know that they're modernizing their nuclear force. We're sure that they have an assured second-strike capability, but as far as exactly how many weapons they have, I don't think we know. And I think that should be scary for those that are in this business.

I think what's also worrisome is not only the warheads themselves, but also China's development of and in some cases proliferation of the delivery mechanisms, right? Because China has the world's largest arsenal—and it continues to expand this—of ballistic missiles, especially short-range and medium- and intermediate-range ballistic missiles, as well as long-range cruise missiles.

I would argue that a lot of these capabilities are so good and they can hit targets with such precision that they're just as powerful that they're just as powerful as a nuclear bomb. So, for example, if you look at China's anti-ship ballistic missile, during the cold war you needed a nuclear bomb to attack carriers because nothing was precise enough to find them and to hit them. Now China has the capability to use cruise missiles and ballistic missiles that are so precise, so accurate, that they can have nuclear effects at the strategic level and also at the tactical level.

And so I think that's something that we need to study more and to watch more as well, not only how many nuclear weapons they have, but also how many delivery platforms that they have and what other developments, what other weapons they're developing that have nuclear-type effects. I think ASAT capability—anti-satellite weapons, space weapons is another example.

(Mastro) Can I just add to that really quickly?

(Kato) Sure, go ahead.

(Mastro) China isn't involved not for lack of trying, just to reassure some of our audience members. You know, China refuses to be involved in talks about their strategic forces and the reduction of them because they say that they are in a vastly inferior position vis-à-vis the United States. So it's not that the US government hasn't tried. It's gotten to a point that even—I'm in a working group that looks at recommendations for the US-China nuclear relationship. We don't even touch upon arms control because it's that difficult of a topic to get the Chinese to the table with.

(Kato) So for you, Ms. Mastro, it's air-sea battle. I hear that some of the expert in Washington, DC have a very critical view of air-sea battle, saying that it doesn't work. I mean, even if you break the barrier of A2AD challenges of China, you know, you don't accomplish a lot. Even if you could send aircraft carrier battle groups and marines to the, you know, right to the shore of the China, what can you do, given the, you know, enormous strategic depth of China? And it's better to have a—set up a sort of defense perimeter along the first island chain and stop China coming out would be better. And this kind of argument I hear in Washington, DC and I wonder what your view would be.

(Mastro) So first of all, I think there are different types of air-sea battle that touch upon those views. First and foremost, I think some people argue against it because there's an assumption that it includes

targeting the mainland. Now, some people who have written about air-sea battle give examples that, you know, ships and aircraft together could work to target the mainland to hit, for example, C2 nodes.

But this isn't an intrinsic part of the operational concept. There's nothing about the concept that either says, as some argue, that we have to hit first the C2 nodes in China or, as other argue, that we have to give China sanctuary of the mainland and never attack them at all.

In terms of the argument of what we can accomplish, it depends on the crisis or conflict scenario. I agree that if what we're trying to do is brute force, then it's going to be very difficult. China is a "target sponge." That's an unofficial term we use. You can't—there's not enough marines and missiles, we don't have enough PGMs. Brute force is the idea that you can get your opponent to do something by literally, you know, by making them do it. Most of the conflicts we think about with China are coercion. We don't have to make them do it by, you know, by actually sending marines in there. It's about increasing the costs so they decide to go along with what we want.

Just the last point about having an outer perimeter. The idea of moving our forces further out allows China to accomplish pillar #4. It allows China to accomplish the idea that we are going to self-opt-out because of the costs involved. And not even that, but I think it increases the probability of war because it increases uncertainty about US commitment, so it reduces deterrence. And then, if there is a war, it's more costly if you look at the fuel required and the assets required.

So we have a higher probability of war, it's more costly if we do it and who are we kidding? If we move further out and only operate from Guam, China's going to be able to adapt their systems to be able to reach Guam as well.

So I think the point is that all wars are limited. China knows that if it's the US military against the Chinese military, they don't stand a chance. The idea is to make sure the United States limits the resources they actually commit to a conflict, enough so that China could achieve its political objectives.

So we have to convince them that certain moves are so escalatory that you will have the full weight of the US military and not just, you know, a handful of carriers here and there, if you make certain decisions.

Q & A and Discussion

(Kato) Thank you. Now the floor is open for the question. Please.

(Audience member) A very simple question to anyone of you who cares to answer. How does Okinawa fit in to your scheme of things?

(Kato) Anybody?

(Kato: interpreter) Yes, anybody please?

(Mastro) I can make one—this is a general comment, not just about Okinawa but about Chinese strategic thinking.

If we're trying to demonstrate the credibility of the alliance between the United States and Japan and both countries' willingness to absorb costs to protect their national interests, these high-level debates about unwillingness to pay for certain bases or who's going to pay for what and increasing the tension in the relationship is not helping our case with China.

In terms of what, you know, Japanese or US politicians should do about it, I'm not sure. But I know that in China it creates a sense of "If you can't agree on this, you think once missiles are coming through that you are going to band together and agree on highly strategic issues in a timely manner? It seems unlikely."

(Easton) I would like to take a crack at that question as well. I think it's an excellent question. And obviously it's very timely.

For me personally, in my mind, Okinawa is absolutely critical. And I think that's why it's ridiculous that we don't do a better job of protecting Okinawa. I think if you look at Kadena Air Force Base, for example, or also the Marine Corp air station there, there are 15 shelters for 100 fighters or more. So if a conflict were to happen and you're a Chinese defense planner, you've a very, very easy job. And I think it would be in the best interest of our two countries to make sure that Chinese defense planners don't have an easy job when they look at Okinawa. And that's why I would argue that there should be shelters for every single aircraft parked on the runways of Kadena and also at the marine air station there as well.

I think there should also be squadrons of military engineers for rapid runway repair because it shows commitment to stay, no matter what. And there should also be underground hardened facilities for our pilots and for the ground crews and also for the fuel and the supplies and the armament, so no matter what happened, we would be there and we would fight through. And I think that's why when I look on Google Earth today at those facilities that we currently have on Kadena, I'm disappointed. And I think because it's so critical, we should treat it as such.

The story I was telling earlier—my father was an undercover police officer. He was a detective for the state police. And he was on a narcotics team. And so I asked him, "How do you prepare to raid a drug house?" And he used to say, "It's easy. I would get everybody on my team and we'd all make sure we had body armor on or bulletproof vests and then we would go." Right now, there's no body armor on Okinawa and so I think we need to make sure that there's some protection there.

(Ratner) I would just add to that, just make maybe a slightly different strategic point, which is as we're thinking about the US forward-deployed presence in Asia and Southeast Asia, one of the things that the Obama administration has tried to do is to have a more distributed force posture throughout the region to serve both operational and deterrent effects.

So I think in addition to hardening or strengthening Kadena in Okinawa, there's also a degree to which it's incumbent upon US strategy looking forward to not be overly dependent on having forces concentrated in Northeast Asia and actually looking to a wider variety of allies and partners that might complicate the decision-making of any potential adversaries.

And what I would encourage Japanese officials to think about is not only how do you harden bases here in Japan, but how do you participate in US efforts to expand the flexibility and diversity of its forces throughout the region. I think there are a lot of opportunities, whether it has to do with the Philippines, Australia or otherwise. So that's another place to look in terms of future for US-Japan cooperation.

(Kato) Okay. The gentleman over there. Here.

(Audience member) Thank you. We have been for quite a long time living under the cold war and every time I hear about preparation for war, preparation for war——

(Kato) Can you identify yourself, please.

(Audience member) I'm from the Middle East. So today, I'm expecting that coming to this peace foundation that we'll hear more about peace rather than talking about war. I'm sorry to say that the—what I have heard now, it is frightening and we are talking about how to prepare ourselves in Okinawa, in United States, in China, for war. I would like to hear from you how we can—going to make more peaceful engagement.

I know now that in China there is a lot of American interest, a lot of engagement in economy, a lot of engagement in culture, in human resources. I think now the time is very good for sitting together to think of how we can be engaged in fruitful engagement.

I know that from question before, here, about the nuclear reactor—I think this one, if you think of it, it is very dangerous to send some of your technology to China. But I think this is a time for mutual cooperation and we have to come up with something that beneficial for all.

I know Japan is also having its own local designed reactor, also gas-cooled reactor, which is very good. I know it very well. It's a very good one. It can be competitive to China, to America too, technology-wise. I'm not talking about military-wise.

So please, tell us something about peace.

(Ratner) I'd be happy to take—I'd be happy—it's a great question and let me just answer it in two ways.

I mean, the first is that US engagement with China and efforts to build opportunities for cooperation with China have been a central component of US Asia policy and the rebalancing strategy. And I don't need to go through—I could track down the list of engagements and dialogues and what-not. I mean, just one important statistic: President Obama and President Hu met face-to-face 13 times in the first administration. It's an astounding tempo of diplomacy and engagement.

So there's certainly an effort. The amount of engagement and exploration for cooperation has been relatively intense.

The second argument or the second point I would make would be that the long-term goal of the United States in Asia is to create an environment, a peaceful environment, in which—a peaceful and prosperous environment that's managed by rules and institutions and norms. And if you look through the different facets of US policy in Asia, whether it's engaging new partners, engaging allies, engaging regional institutions, trying to strengthen the role of international law, the purpose of all that is to create an environment in which opportunities for cooperation are exploited and conflict is managed in a way that's institutionalized and not determined through coercion and force.

So I think it's absolutely the goal of the United States. Whether all actors in the region are interested in that kind of environment is, I think, a question to be answered in the future. But the intention of the United States is not conflict. The intention of the United States is a regularized, peaceful and prosperous region.

(Mastro) If I could just add to that, I don't think the cold war analogy applies here, in all honesty. Not only because, you know, given my age I don't really even remember the Soviet Union and the threat. I don't think about the Soviet Union when I think about China.

But, more importantly, because when I talk about tensions in the relationship, I go over to Beijing and talk to my friends in the party about this. We sit down, we have honest talks about the fact that the relationship between the United States and China has gotten worse in the past few years, something neither of us want to see. But it's complicated. And so I think you have the interactive component. China's not trying to export revolution, but—either.

So in many cases, we are talking about potential for conflict. But the relationship—not only because there are so many cooperative elements in which we are trying to engage, but even on the people-people level, you know, the fact that I can get on a plane to Beijing myself, you know, makes it a very different environment than it was then.

(Harold) Scott Harold of the RAND Corporation. We're looking at policy recommendations just a few days ahead of Prime Minister Abe's sit-down with President Obama. There is obviously a very big issue over the Senkakus. There is a debate going on in policy about how to handle that.

I wonder if any of you would venture any thoughts. Are we more likely to keep the peace through calm, cooperative but low-key attempts to reassure Beijing that it will not succeed in forcing Japan to undo its nationalization? Or would you be advising President Obama that something more firm needs to be done, such as supporting Japan through a policy statement of some sort or encouraging Japan to put forces on the islands so as to deter any provocation by China.

(Mastro) This is the balance of, you know, accepting risk without being reckless and allowing for escalation without being provocative. That is an extremely difficult balance.

I think personally that putting forces in Okinawa or taking a—sorry, not Okinawa, on the Senkakus, is not really the way to go. Militarily it doesn't do much in terms of, you know, it saves you what, you know, a couple of hours? So I don't think that's going to be the deterrent.

I think if anything the idea is to show China that course of diplomacy doesn't work. China has three components to its course of diplomatic campaigns. It shows military provocation, it engages in legal warfare and it has usually a coordinated media campaign explaining to their domestic public and to others why they're right and everyone else is wrong.

I think Japan in the Senkakus needs to address each of these. When it comes to the military provocation, what Japan has been doing is correct, which is, you have to respond every single time China shows, you know, force, the limited display of force—scrambling your interceptors—and showing that you know that they're doing this and it's not acceptable.

For the coordinated media campaign, I think it's important to publicize each and every time this is happening. Now, I don't work for the Japanese defense department, so I'm not sure if this is the case. But in the United States, if you look at the Impeccable incident, for example, this was only made public because somebody leaked it. So I can imagine that there are incidents and dangerous behaviors that are happening around the Senkakus that we don't know about. And I think it would help Japan's case if there is a record of the constant provocative behaviors that China is taking.

And last, the “lawfare” situation—legal warfare. Japan already kind of has this one in the bag, right? Because they do administer the islands. China usually is extremely aggressive though, however, when they feel like their claims are weak historically in territorial issues: in the South China Sea, when they used force against Vietnam, when they used force against India.

So I think you just have to constantly demonstrate that you're aware of what's happening and you're not going to give an inch. But because Japan's in such a strong position right now with the administration of the islands, escalating with military force is probably not the way to go.

(Ratner) I would just maybe make a couple of additional—I mean, the first, Scott—Dr. Herald, is one of the premier PLA experts in the United States, so he should be the one up here and we should be asking him the tough questions.

But just a couple of additions to that. I mean, first, I think the US policy of making very clear its commitment to the US-Japan alliance, clear that the alliance covers the Senkaku islands and clear that regardless of how many maritime vessels China sends across the seas, that that won't change perceptions of the United States about who administers those islands. I think in terms of communication strategy, the administration has been crystal clear and I think that's important.

In terms of policies looking forward, I think the—some of which we've already seen—I think it's important that Japan strengthen its capabilities around island defense and around its maritime domain awareness. That's an area that the United States can help. But Japan's going to have to invest more money in some of those capabilities and I think there are positive signs that Mr. Abe may be heading in that direction.

I think that's going to be a stabilizing force, regardless of some of the media commentary that would like to portray that as some sort of nationalism or right wing type of policies. I think that's very centrist, realist and practical defense policy on the part of Tokyo.

And the last point that I would make is I think it would be effective and important for folks here in Japan to put what's happening in the Senkaku islands in the larger context of the regional strategy and think through how the development of regional norms and institutions can help manage some of the behaviors in the seas, rather than viewing this just as a Japan-China dynamic.

I think there would be a lot to be gained and I know some of the regional diplomacy that Mr. Abe has already engaged in, I assume, has sought to do this. But I think it would be important for Tokyo to be reaching out to the Australians, the Indians, the Vietnamese, the Philippines and the Europeans and others who have a real interest in freedom of navigation and the free flow of commerce in the region.

So I think expanding it beyond a narrow conflict over a small territory into a broader conversation about regional norms, institutions and international law would be an effective approach.

(Kato) Just one more question. All the way back, the black sweater.

(Audience member: interpreter) I have a question, if I may. I was interested to hear these strategic views from the panelists. Looking at the current US-Sino relationships, it seems that more than Japan, US and—relationships, it seems that you have a lot of pipes with China. So there may be some degree of illusion on the US side.

Do you really have a hotline, reliable hotline, between the United States and China? That is the question. Is there a workable hotline, functioning hotline between the United States and China?

Back in 2001 in April, there was a landing between US and China and on the 23rd of May between Bush and Hu Jintao there was this hotline, established on the 23rd of May. But under the current situation, I'm rather concerned that there is a lack of hotline between United States and China. So I

just wanted to find out if there is a workable, functioning hotline between Japan—correction, between the United States and China at the moment.

(Mastro) It's my understanding that there is a hotline. If you think of a physical, you know, line that our president can call over to China. But your concern is still valid. And this is because the Chinese have a way, during times of crises, of not answering the phone when you call. This is primarily because there's a desire to reach a consensus internally of what the position is before they deal externally, and this takes a lot of time. And unfortunately for crisis management, in order to deal with any inadvertent escalation or dynamics outside of two governments' control, you need to talk right away.

And so there has been many attempts and—that I think have been making progress, formally and informally, to talk to the Chinese about crisis management. But I think the hotline hasn't resolved our problems and, more broadly, I think that China introduces risk on purpose. And so crisis management helps when you are escalating by accident. If your opponent is doing it on purpose, then telling them that what they're doing is dangerous doesn't really get you anywhere.

So you can call them and say, you know, "Your ships are maneuvering really dangerously close to our ships," and they would say, "Yes, we know." So crisis management is something that's very important but that I think we still have a lot of work to do on.

(Ratner) I would just add to that I think also it's important that there's this—I think part of the motivation for this question is that there are some ideas about developing a hotline between Tokyo and Beijing in the time of crisis. I think what we've learned over the last couple of years in US-China relations is that you can have a hotline or not but there's no substitute for having a deeply institutionalized level of engagement to deal with crises. And what we've seen, whether it's in the South China Sea, the Chen Guangcheng dissident case, is that when those incidents got very hot, very quickly, it wasn't that we had a hotline between the United States and China that allowed us to manage some of these difficult issues, it was the fact that the embassy—the Chinese embassy—and the ambassador in Washington is in contact with the State Department and White House, often on a daily basis: meeting, talking on the phone. Our embassy in Beijing is meeting with the Foreign Ministry and others, again, on a daily basis. And the kind of relationships that have been built up over time mean that whether you have a hotline or not, there's going to be very rapid and very close communications between our governments.

And both sides have talked about a maturity in the relationship and the ability to get through crises in the last couple of years that in the past—even, you know, as much as five or 10 years ago—could have spiraled into much deeper competition.

So I think looking forward, from the Japanese perspective and from the American perspective as well, the answer is not the easy fix of having a hotline, which will have problems for the reason Oriana mentioned, but actually putting in the hard work and taking the political risk of developing that kind of a political relationship that you can call on in real times of difficulty.

(Kato: interpreter) We have run out of time unfortunately. Could we have a warm round of applause to our panelists, please. We've run out of time.

Thank you very much.

Closing

(Facilitator: interpreter) Thank you very much. With this, we would like to close the Panel 2. We'd like to thank all the panelists and also thank the moderator. Could we have a round of applause to our moderator and to our panelist once again, please.

Ladies and gentlemen, with this we'd like to close today's session. Thank you for joining us for very long hours in the late evening. Also, as for the earphones, may we ask you to please leave them on the desk as you leave. Also, you will find a question sheet. On the sheet, if you could fill them, we would appreciate it. Please be sure to take all your belongings. Thank you once again for your attendance.

(End of panel discussion)