

Mike Allen: Thank Aspen ideas, uh, for this. A great panel, this amazing all wind up. Thanks for all of you to coming out in the evening. And thank you Garrett Graff for leading it. It's been a friend for a long time and it's one of the great, uh, young journalists and uh, so it's great to be in his space. We're honored to have with this two people who when I need to get smart or not smart but smart earlier on China, among the people that I consult, Amy Silico is co leader of the China practice at the Albright Stonebridge group. Uh, she has more than 20 years of experience, worked in China issues, has lived in Beijing and Shanghai as a diplomat and uh, is a veteran of both the Clinton and the Bush administrations. You don't get a lot of people who can say both.

Mike Allen: So that's a treat. And what have you know, Ambassador Mike Froman who now is vice president and president of strategic growth for Mastercard. He's a not just a fellow at the Council on Foreign Relations, a distinguished fellow or distinguished you are the less work you have to do, he was President Obama's US trade representative and he is an alumnus of the Clinton White House and Treasury Department. So we'll start with the news. You could put up the Wolf Blitzer breaking news banner at this moment. Uh, President Trump is in Osaka, Japan and the G20. I'm making friends influencing people. Uh, I was asking on the sidelines here, I was asking Ambassador Froman how bullish or bearish he was. He said the best case scenario at this moment is a truce. What does a truce look like and what are the chances?

Michael Froman: So I think a truce looks like a commitment by a, an agreement by the Trump administration not to go to the next level of tariffs on the rest of the \$250 billion of, of Chinese, uh, exports to the United States and an agreement that the trade negotiators will sit down with each other and start talking again. They really haven't been talking much in the last several weeks and his sword of Damocles had been hanging over their head, but I don't expect much more than that.

Mike Allen: And Amy Celico you said that, uh, even though they're sort of headed in this direction, they haven't really wanted to signal that. So what are the games that are being played by both sides?

Amy Celico: Well, I think from Beijing's perspective, what they really want is some progress on Huawei. And so showing up, uh, in Japan, uh, they know that President Trump wants a deal but doesn't want to, to characterize himself as being so anxious. And on the Chinese side they acknowledge that their economy is slowing and that certainly this trade war hurts. I think they've been Xi Jinping's since he's been in Osaka, has been trying to make friends and influence people as well. Very much so that the, the, the U.S. side doesn't have quite so much leverage over the Chinese here.

Mike Allen: The Wall Street Journal had a story that included Bob Davids who obviously was very well plugged in to these issues basically with the demands of Beijing. How unusual is that? And a, what has been the outcome of there being essentially like, uh, uh, terms of, uh, of engagement?

Michael Froman: Yeah, I think as I, as I recall, the demands were, uh, to drop the Walway restriction, um, uh, dropped the threat of additional tariffs and stopped pushing for more purchases of Chinese goods beyond what had been agreed to. Uh, before I think I, I think it's basically posturing, uh, each side lays out what they want to lay down markers on. But I don't think anyone, I think if they can reach out, reach a truth without anything more than that, they will have deemed it a success.

Mike Allen: Okay. So let's pull back the camera. I'm putting aside what happens at the [inaudible], uh, with the, this, uh, relationship is going to matter for, for as long as either one of these leaders are, is in the office, uh, any, talk to us a little bit about she, so we sort of have a sense of the Trump negotiating style. What kind of a match for him is she and what is it like to be across the table from him?

Amy Celico: Well, she didn't ping really has surprised many of us who watched China develop for decades when he first, uh, came into power almost seven years ago now. He was the compromise candidate to be the ruler of China. And there were some beliefs that he would want to continue on this reform trajectory that China could have taken. And those hopes certainly have been dashed as Xi Jinping turns out to be a really wildly, um, domestic political player. He has consolidated power in a way that none of his predecessors had managed since I would say mal de Dome. And he has abolished term limits. And so for both his domestic audience as well as foreign players sitting across the table from him, he is going to be there negotiating with them for the foreseeable future. It's really long outlast trial. Right. And so I do think that gives the Chinese government and ability to think in the longterm about it strategy. Not to say that there aren't some real vulnerabilities to having consolidated power in that way. I think there are for Xi Jinping, but I do think that for others looking at she at the negotiating table, they're looking at a very, very strong leader in control of China.

Mike Allen: Amy. As we were chatting right before this, you said something that surprised me. I asked you who seems to have more leverage at this point. And you said the Chinese seem to think the US does, so just unpack that.

Amy Celico: Well, certainly the Trump administration has effectively brought the Chinese government to the negotiating table. I don't know that that's going to affectively solve any problems for us, but certainly the Chinese feel quite vulnerable because of the tariffs. And because of that compounded with a slowing Chinese economy and the u s government has been quite effective at unilaterally making moves that have in some ways put the Chinese back on their heels. They don't know how to predict what president Trump will do next. And so that is very difficult and something that Chinese aren't typically accustomed to, that unpredictability that we're seeing out of the, out of the Trump administration. And so, you know, talking to folks on the ground in Beijing, they feel that the u s side has a lot of leverage here with the Chinese right now and the Chinese are trying very intensively to build up their own leverage and response.

Mike Allen: So it sounds like the Trump style works.

Amy Celico: Well the tactic certainly has made for interesting negotiations. It's gotten the Chinese side to the negotiating table and to acknowledge problems that have been uh, undermining foreign investors in the China market and manipulating the global economy for a decade. So there's been some progress there. But remember there are no result yet. The costs I think today are just as heavy on the u s economy as they are on China.

Mike Allen: So if you look at the Trump negotiating style and some reporting we had on axios before is someone with North Korea, the Trump mindset is just put me in the room and I'll figure it out. Right. And as he suggesting here, that's kind of the opposite of the Chinese approach, right? Mick, you've been across the table from them. Tell us like how they think and what their comfort zone is.

Michael Froman: Well, I think they have a total systemic approach to negotiations. And in fact, whoever's at the table, it doesn't really matter because they're all reading off the same set of, of talkie points. They're very disciplined. Uh, in that regard. I think, I think the, you know, the really two sets of negotiations going on here. One is what we might call the shopping list, how much more of our stuff we'll try to buy soybeans, LNG oil, uh, tractors, etc. Uh, and the other is over fundamental structural reforms. The Chinese leaders thought they understood, uh, president Trump early on and they say, I was, one official told me, he said, we understand how important it is for President Trump to have tweetable deliverables, which I thought was a wonderful phrase, tweetable deliverables. Um, and they thought that getting into the shopping list negotiation would give him the tweetable liberals.

Michael Froman: Thus far, the administration has resisted being seduced by that approach. And I've insisted on the structural reforms, which are much more difficult negotiation cause it goes to the heart of China's industrial policy, which from their perspective has worked pretty well for them and which they have every intense is the China 2025 strategy is to be dominant in a number of key technologies. They have every intention of up pursuing. So that's the hard, that's the, that's the rub right now is how do you get at those, um, structural issues. Um, each administration has gone after the same issues in different ways. The issues have been around for a long time. Many of them are really quite legitimate. Um, some of us went out there some combination of steroids, carrots and sticks and, and I think the, this administration has sort of taken a slightly different approach and sort of sticks and kicks butt. You know, either way it's a, the, the, the point is that the, the trauma station has been effective, I think through the use and threat of tariffs of getting China to the table. Now the question is, can they translate that leverage into an actual agreement? And that's a much harder, uh, effort and requires a lot more diplomatic nuance.

Mike Allen: So for those of you who are tweeting, I will say that sticks and kicks is the most efficient expression of the Trump doctrine. I've yet heard. So, uh, uh, Amy, once,

when your clients at the Albright stonebridge group are asking you about China, what worries them or what are they curious about? Like what, what are the big unknowns for American firms and American operators in China?

Amy Celico: So most of my clients are corporate clients and they've been in the China market, um, for a long time. Uh, but I also serve American universities, nonprofits who are trying to change Chinese policy, whether it's about illegal trafficking of, of animals, wildlife trafficking, uh, trying to expand their university presence on the ground. All of my clients, whether they're American, European, other Asian clients operating in China, want to understand, are there more opportunities for them in China going forward? Or in fact, is the Chinese government going to continue to reform its economy by closing it off to foreign participation in the market? And that is different across different sectors. So some of my clients see real opportunity. Of course China is going to become the largest consumer market in the world this year. It is a huge opportunity for so many of my clients. But depending on the sector, the opportunities are be, are, are increasing because there, there is this growing consumer class, massive middle-class, larger than the population of the United States that the same time the Chinese government, some of the policies that might just mention made in China 2025 a lot of subsidies for the development of semiconductors and other 21st century technologies are actually publicly stating that China wants this, the undergirding of its economy in technology and artificial intelligence increasingly in other sectors as well to be Chinese for national security reasons.

Amy Celico: Um, but also to help build the Chinese economy and Chinese industry that worries my clients tremendously and the right to be work and their right to be worried. And so the strategy right now in this current environment, it depends on the sector. Some of my clients are saying we need to localize our presence in China, in China, for China. Some of my clients who are manufacturing for Global, um, uh, global sales are saying, we've got to extricate ourselves from the China market because of the global supply chain is being interrupted by Chinese action and American action they use of terrorists. And then other clients are saying, we have to wait and see what happens between the United States and China. Is there a truth that's going to allow the United States, universities, nonprofits, companies to continue to grow in China? Or are those trends going to go, going to be lessened?

Mike Allen: So that's super interesting that this year is the tipping point that China becomes the world's largest consumer market. Unpack that a little bit. Who determines that and what happened on a certain date or it's just part of a trend and what does that mean?

Amy Celico: Well, it's part of a trend and so China has been growing, um, for decades now. Of course, last year it grew, uh, it continued to grow, but it was actually, its growth rate was the lowest in 28 years. And so while China is becoming larger and larger in the consumer market growing it, the Chinese government is very concerned about stable, sustainable growth going forward. There was so much

investment driven development of the Chinese economy and now so much, so many subsidies and other incentives being uh, created and given from the government to state owned enterprises and a little bit to the private sector that it's been a drag on, on Chinese growth. And so this year the Chinese government has emphasized we want our private companies to grow, not just our state owned enterprises. It is very challenging for private companies to grow if they're closed off from global companies like mastercard and others who can actually help China continue to grow.

Mike Allen: Well, like on the spectrum of what the u s administration has been saying about Walway, which is it's basically an agent of the Chinese government and what the Chinese government says, which is who was like, what is the reality of how entwined embedded the China's state is in Walla?

Michael Froman: I don't have any great wisdom on that. All I would say is, um, if it is a threat and if this administration is going out and trying to convince the rest of the world that it's a threat or European allies, Japanese and others, then you can at the same time say it's a cit to be traded away at the trade negotiation. It's either a threat or it isn't it. If it's a threat then it can't be compromised and a trade negotiation. If it isn't, then it's been, it's a Chet and I think we've heard both messages out of the administration currently.

Mike Allen: I mean what convinced me in one of you can correctly what convinced me that it's a real threat was the Wall Street Journal story about cables and like that seems like an authentic vulnerability. You know, audience request was can you just walk us through, take a phone ticket, anything like what is the reality of how they could or would infiltrate our personal technology?

Michael Froman: Yeah. I'm not a, I'm not a great expert on that. I would say there are concerns about back doors, there are concerns about the infrastructure and particularly as countries are upgrading their infrastructure from four g to five g a this issue has come to the fore because Walway is a major producer of five g technology and has been a backbone of the four g technology and a lot of in a lot of markets which gives them an embedded, uh, an embedded advantage. Uh, but look, I think, I think that's gotta be dealt with as a national security issue. One thing that, that I think both the Bush administration and the Obama administration tried hard to do was separate out national security and economic issues and make it clear that we were going to pursue our economic issues hard and not pull our punches when we felt China was, uh, was compromising them. At the same time, we would deal with our national security issues, some of which we have common interests in, around, uh, North Korea stabilization or anti nuclearization around, uh, the antiterrorism and things of that sort and some of which we may have competition or conflict in. And we'll have to deal with that as well.

Mike Allen: I mean, Amy, how much do you personally worry about the idea that of a Chinese manufacturer, for instance, of a subway car could be compromising? Like how understated or overstated have these risks been in our popular media?

Amy Celico: Well, I couldn't agree more with Mike's Point about the distinction of this administration allowing national security policies to bleed into economic policymaking. It makes it so difficult to actually distinguish what is a legitimate threat and what isn't. And so it is, there is a proliferation of talk about Chinese threats. For example, having Chinese companies building our subway systems across the United States. So much so that the National Defense Authorization Act actually has a provision in there. It hasn't been passed yet, but put forward saying the u s government should not allow, um, the Chinese state owned railway, uh, company to sell to our subway systems across the United States for national security concerns. I'm worried that we haven't thought about rightsizing the China threat. There are legitimate national security concerns that we have visa vi China, but not everywhere and not in everything. So I was speaking with a telecommunications company that we serve a a European client and we were talking to them about the hallway threat and you know the point that that executive made was of course there are vulnerabilities there but there are so many more vulnerabilities through software.

Amy Celico: So we can't just say if Walway weren't involved in five g with through its hardware that there would be no threat from from the Chinese government. We do have to think about these threats, but in this administration, the u s government is talking about national security issues in our economic policy making as well. And so that's something that Chinese government has been doing for years and years. I don't think it's behavior we should be emulating if we're trying to actually right size this, this threat, and then work together with allies to actually stand up to it.

Mike Allen: Like whether it's a truce or whether there's a deal. What are the long range implications of this six week standoff we've had in the current posture between the two sides?

Michael Froman: I think it's a great question because I think even if there's a truce this weekend or a deal three months from now, um, we're all hoping there is, but it doesn't really solve the fundamental issue and that is that we have a fundamental challenge of a a than the world's second largest economy and someday the world's first largest economy integrating it into the international system. If it continues to play by a fundamentally different set of rules and the, the rules based system that we created after World War Two was, was not built to really adjust and be able to absorb that. Um, I think it's interesting. I think China is, had a very disciplined approach of pursuing its national interests narrowly defined and relying on the u s and Europe and others to maintain the health and welfare of the international system from which they have benefited enormously.

Michael Froman: The open trading system. What's interesting about the, about where we are now is, um, we always expected China to become more like us by integrating them into the system that they would become more westernized or adopt a more international set of rules. Instead we were becoming more Chinese and that we're pursuing our national interests narrowly defined and are less willing than we have been in the past to pay the costs of the rules based multilateral system from which we also benefited in RSA. And the question is can the world handle two China's two countries with China's approach because somebody needs to maintain the health and welfare of the system or we're going to be in a very different sort of world than I, I'm not convinced that Japan or Canada or the EU with all of its internal issues, we'll be able to substitute themselves for the u s and the role that we traditionally played in the post World War Two period.

Mike Allen: [inaudible] my curtain up in the Washington Post a couple months ago about what president Trump has to build on in making a deal part of the work of you and your colleagues, but there's no indication that's occurring. Right.

Michael Froman: Well, like I think a, and I've said before, I think the decision to pull out of the Trans Pacific partnership in retrospect will be seen as one of the most significant strategic blenders in recent American history. Um, I think it's interesting that the other 11 countries have moved ahead with TPP that other countries are taking to join that if you look at the new u s MCA, it's 85% based on TPP. So a lot of the same rules are finding their way into the system and the agreement that's to be negotiated potentially between the u s and Japan, the press release announcing it said it's not going to go any further than TPP. And so I think what we're seeing is that we may not quite see the same rules put in place in the same way. We've lost a lot of the strategic advantage vis-a-vis China in the region, uh, that TPP would've given us, but the fundamental underlying disciplines may find their way, uh, uh, into, into the international system. And even the issues that are currently being negotiated, like forced technology transferred, uh, intellectual property rights enforcement, subsidies of state owned enterprises, those issues. We negotiated in something called a bilateral investment treaty with China, which was about 90% done when we left office. Of course, we thought we would just leave it for President Hillary Clinton to finish, which shows how good our political acumen was. Um, uh, but I'm hopeful that this administration at least pockets what we secured there and is able to build upon that.

Mike Allen: Amy, two nights ago over at the Jerome, you were part of the Aspen ideas festival, a watch party for round one of the democratic debate and what Chuck Todd asked them the biggest geopolitical threat to the United States, four of the 10 singled out China. The others were a Russia nuclear war and Donald Trump, um, was the interchange climate was the most, Yep. Yep. The fact that four of them pick China, is that under or over what it should be or what you thought it would be?

Amy Celico: Well, I appreciated that at least one of the individuals said, let's not call it a threat. Let's call it a challenge because it certainly is going to be the fundamental challenge for the United States in this century. Getting this relationship right, a relationship that 40 years into normalization is at the lowest point since 1979 and so this is a relationship that could get worse, but it does have the opportunity to get better if again, in the United States and in Beijing we can rediscover some of the common interests that we share and then I would say in the United States if we could follow on what the Obama administration did and try to rebuild our presence in the Asia Pacific, work with our allies to more effectively pressure China. Of course China wants to be a rules maker, not a rules taker in the 21st century. It's, it's a global superpower in the making, but I think we could more effectively move the needle with China if we were working with our, our partners, like minded partners and allies rather than punishing them for national security based concerns the United States has.

Michael Froman: Well, I think this is a really important point because again, whether we have an agreement this year with China that take some of the tension out of the system, we are in a long term, um, competitive conflictual relationship with them depending on the day and the particular issue. And ultimately to, to succeed in, um, having influence over China, we need to have the support of the international community. You can't just be us. It's gotta be our allies, not say, and not just our traditional allies, major emerging economies who are worried about the same kind of distortive effect that some of China's policies have. And so, uh, it, China I think has the view that they can just outwait the Trump administration, whether it's two years or, or, or six years. If this is going to be a multi decade challenge tcis as world words, then I think we've got to go into it. Um, not, I hate to use the comparison somewhat like we did in the Cold War, having built an international coalition that stands with us and has constancy a in its ends approach.

Mike Allen: And Amy, you mentioned earlier, alluded to the fact that China thinks very explicitly in terms of 20, 30, 20, 50, the u s of course barely thinks past 2021 or at the most 20, 25. How big a problem is that?

Amy Celico: Well, I do think just following up on what ambassador from and said this the China challenge and in some circles the China threat is a bipartisan issue in Washington DC. This is not something that a new administration, it was going to say, oh we can go back to status quo ante. Uh, and so the Chinese government are waking up to that reality that waiting out the Trump administration isn't necessarily going to help them. And so they are proactively trying to develop other relationships to in some ways decrease its reliance on the United States. Because I do think there is this awakening that that's this period of constructive engagement that defined our relationship. Um, for so many years now is being replaced by some elements of competition. We hope that that doesn't become enmity, but rivalry and competition is going to characterize this relationship going forward. The Chinese government certainly has a longterm view to achieving a national rejuvenation by the hundred year anniversary of the

People's Republic of China in 2049 and a lot of benchmarks in the meantime, but just again, China is not going to continue on on a steady trajectory between now and 2049 they have many, many hurdles that they will face.

Amy Celico: And dealing with the United States, whether it's this administration or whoever succeeds it is going to be one of the core challenges that China is going to have to face and adjust to

Mike Allen: and best for from an Thomas rate of Brookings wrote in the Atlantic a that Democrats need to place China at the center of their foreign policy. To the degree you've been falling 2020, or from what you've heard or observed to, to what group degrees that occurring or should it, uh, does it need to be more of a focus?

Michael Froman: I think, it is a bipartisan

Michael Froman: issue now. There's more of a consensus around China, within the United States, across the political spectrum in terms of the challenge, but also internationally. It wasn't that long ago that we were not necessarily on the same page with the Europeans. Um, around, uh, what, uh, what, what uh, what China meant to, uh, the, the rules based system. I think that consensus is now, uh, is now forged. I think the challenge for the Democrats from a political point of view is I don't think they can out tough, uh, president Trump on China. And so yeah, they're going to have to distinguish themselves in how they go about it. You know, having a smart, a smarter approach. I think what they would say is visa be the same sorts of issues. And I think some of that goes to building international alliances, putting concerted pressure on, uh, and avoiding some of the things that are costly to the United States.

Michael Froman: One of the challenges around the tariffs is the terrorists have tremendous costs and they're not always visible. You know, there's the, the direct costs, how much more it costs consumers or manufacturers who are using Chinese imports in their manufacturing process. There's the cost of retaliation, which particularly our farmers and ranchers are feeling, but others may feel as well. And then there's the cost of imitation, which once the u s gives up the position of holding to its international obligations on tariffs, it opens the door to every other country where there isn't as much of a check and balance on a trade policy as a risen in the United States to use terrorists whenever they feel like there's a protectionist impulse in their country. But a lot of countries around the world who say, well, food security is national security. So if the u s can declare that German autos or Canadian steel is a threat to its national security, why can't we say all of the U S is agricultural exports are also a threat to our security and keep us out of their market and that will have a gain, a significant longterm effect on our economic wellbeing.

Mike Allen: So we're about to get the hook here. Amy, you're going to have the last word. I mentioned that you've lived in Beijing, in Shanghai. What do you hear from your

friends there from your research, from your contacts there on behalf of your clients in this more authoritarian season in China? What do you hear about how different it is to live daily life there compared to when you were there?

Amy Celico: Oh, for sure. When I was in China in the 90s and early off, that is now look back upon us, this golden era of openness in China. It is much, much more repressive being in China now and prior to the Huawei issue coming to the fore, I think there was a lot of quiet grumbling among China's intellectual elites that President Xi Jinping had gone too far too fast to make China so much more assertive on the global stage. Whether it was, you know, taking advantage of the WTO rules or on Taiwan, the South China seas, openly disregarding agreements that it had made with the u s government on cyber security. And so there was grumbling that Xi Jinping was not helping China, he was hurting China. However, this action against Huawei, I think has begun to crystallize in China a view that the United States wants to keep China down, that our goal is not to compete with China, but to prevent China from becoming a competitor of the United States. That is a very, very dangerous trend for us. Finding a way forward to resume common interests.

Mike Allen: We thank the Aspen ideas festival. Thank you for coming. Thank our panelists and we welcome back Garrett Graff.

Garrett Graff: I wanted to have, um, sort of this second fees of this conversation sort of focus in on these tech issues. Um, and so I'm pleased to be joined by Elsa Kania who I've, uh, had the opportunity to get to know over the last two years, uh, and is probably the person that I learned the most from listening to and reading, uh, on the issues of sort of Chinese military innovation, technical innovation. Um, and we are particularly lucky to have her today. She is literally fresh off the plane from Beijing, uh, and is turning around and heading back to Beijing, uh, after the ideas festival. Um, and so while, uh, I, I learned a lot from you. I think one of the most interesting things that we can say about you also is that the Chinese military also reads you and studies you very carefully and what your observations are. So I'm glad that we have the opportunity of your, uh, of your insight today to help us understand these big geopolitical issues.

Elsa Kania: Thank you. Very glad to be here.

Garrett Graff: So let me start with sort of picking up one of the themes, um, that, um, uh, Amy teleco and a master from and we're talking about, which is you also are sort of very vocal in, uh, trying to make sure that we don't frame this as a race with China, um, either technologically or, or economically or militarily. Um, and I'm curious if you can sort of give us some sense of how you think about this, uh, from the big picture frame of the technological, uh, challenge that China poses to the United States.

Elsa Kania: Sure. So I think we've seen a striking recalibration of American assessments of China's potential and capabilities and innovation in the past couple of years.

Suppose I'm old enough to remember when there was a lot of dismissal of the prospects of original and independent innovation coming out of China. It was not the long ago. There was a lot of skepticism and much more of a focus on issues of IP theft in tech transfer relative to cutting edge technological developments. And now I think there's sort of a recognition and belatedly and rightly so, that China is increasingly emerging as a powerhouse and would be super power and some of the rounds of science and technology that could catalyze the fourth industrial revolution and really think transformed the future of our economies and societies and militaries. And I think now there's a tendency to a lot about a everything in terms of her race, the race for AI or even the AI arms race, the race to 5g the race for quantum computing and otherwise, and I think clearly there it is right to recognize there is quite intense competition among companies and among countries on all of these brands.

Elsa Kania: But I think across each of these categories of critical technologies, it's actually quite a complicated landscape, including one characterized often by extensive interdependence and collaboration between American and Chinese companies and researchers. So for instance, AI has a very general purpose technology. It's much more enabling than it is a weapon or is an, it's not a singular technology. A crop, uh, extends across a range of different applications. So it's hard to say who is winning the AI race, so to speak. Nor does that framing necessarily lead you a, a full consideration of the range of, uh, relevant policy options then could best ensure American competitiveness. So I think it's helpful going forward to think much more about the complexities and overall challenges of how to sustain American competitiveness at a time when we are facing both the near term threat and a longterm challenge on these fronts. Yeah.

Garrett Graff: So what does China get right about technological innovation?

Elsa Kania: So I th I suppose what I find rather ironic is that many of the things I see the Chinese government getting right these days are actually things they've, that are, uh, not too dissimilar to certain moments in American history and things. And the Chinese policy makers have learned from a close study of our policies and our history. So, for instance, if you look back again, I don't think the Cold War is a great analogy for the state of you as China relations today. But if you look at us approaches to science and technology during the Cold War, after the Sputnik moment, we uh, launched a, the national defense education act really focused on stem education as a core component of national competitiveness. We massively increased funding for research and development and really concentrated on science as a core component of that competition in the space race and otherwise, arguably, China today has had more vase about Dick moment perhaps in the u s has when it comes to AI, for instance, that Alphago's defeat of Lisa Dole in the spring of 2016 actually commanded quite a lot of attention in China, both from Chinese policy makers as well as from the Chinese military.

Elsa Kania: And this was recognized as a really pivotal moment in the history of AI and for, uh, 10 years earlier than many experts had expected. And --

Garrett Graff: Why don't you sort of, probably this audience doesn't necessarily know that example. So we'll give, give us a little bit of a background on sort of what that meant and why that mattered.

Elsa Kania: Sure. So go was the game with a long history in China and also a game of great complexity. So although AI had become advanced enough to beat humans and other games like chess, a go was a new challenge. And when AlphaGo designed by Google's deep mountain was able to beat some of the world's leading gold players, this was a sign of the growing maturity of AI that it was able to succeed in the game so complex and even develop tactics and strategies that humans had never envisioned or invented in playing the game of go. So do Chinese policy makers at the time, this was very much a wake up call as to the rapid advances in AI Technology at which, uh, many American and international companies were at the forefront and to the Chinese military, this was actually a sign that AI could have great potential and tactics, strategies, command, decision making. And, uh, that along with the actually a US plan for AI r and d that was launched in 2016 that actually was more widely read in Beijing than in Washington. Arguably, this was part of what launched a massive, uh, initiatives by the Chinese government that materialized in their new generation of artificial intelligence development plan and the summer of 2017 which articulated this ambition to lead the world in AI. So definitely a lot of interesting reactivity and interactivity in terms of how us and Chinese policy makers are thinking about technology.

Garrett Graff: So one of the things though that you've argued is that we potentially in the u s uh, look too ominously at the language and the rhetoric that comes out of some of these Chinese plans. Um, and that, uh, in the US, uh, for instance, our government is quite good at churning out white papers, reports, uh, and plans that go absolutely nowhere and are, uh, relatively meaningless bureaucratically. Uh, and yet when the U s we sort of see these plans come out of China, we see them as these hugely threatening documents that, uh, are predisposed to total success. Um, it gives us sort of some sense of how, how sort of seriously you think the Chinese government is following through on some of these plans and sort of, uh, how real is, uh, are the advances that they're making.

Elsa Kania: I think the, the ambitions and aspirations that Xi Jinping has personally emphasized are worth taking very seriously. And again, this, whether it's made in China 2025, which has become rather infamous or, uh, this new generation of artificial intelligence development plan, I think we are seeing a consistent emphasis by Chinese leaders that this is a unique historic opportunity for China to close the gap or even surpassed the u s through. We're taking advantage of a first mover of opportunity in new technologies in which the u s does not have and may not achieve a clear advantage. And so I think we should take these ambition serious little, but I think there can be a gap between those aspirations

and some of the rhetoric that again Tszujing Ping is personally highlighted the importance of the strengthening the nation through science and technology relative to the fact that actually much of the innovation in China has been driven by commercial enterprises that are increasingly global leaders in these fields and China's national team in AI, Baidu, Alibaba, Tencent, I fly tech incense time are quite competitive in their own right and now the Chinese government is looking to harness and leverage their dynamism to advance AI development nationally.

Elsa Kania: So I think there can be certain shortcomings and inefficiencies with these attempts to combine a state driven and more can oriented approach. It's an interesting hybrid model in a sense. And there can be certain elements of it that could work very well. So for instance, increasing investments and cutting edge technologies of gruesome support for basic research. But there are also certain negative externalities that come with these attempts to implement a plan with a sort of an interesting dynamic where you have this national level objective. And then local governments throughout China jumping on the AI Bandwagon, so to speak, in launching their own AI plans. So many, I can hardly keep track of them and not every city or province in China will become the next silicon valley. The many clearly aspire to or going to great ends to demonstrate that they are trying to implement this national level initiative.

Elsa Kania: But I think so I think there are some productive developments in come out of that, but also the risks of an AI bubble that could come with inefficiencies and investments that may not be very smart or effective into AI as a sector, which is quite overheated. So I think the sort of lofty rhetoric about China wanting to lead the world, AI relative to the masons of the sector and some of the companies and startups that are just moving into this ecosystem and some of which claim to be doing AI, but a have rebranded themselves as such. So I think it's still too soon to say whether these full aspirations will be fully realized. But I think certainly a lot, a lot of progress in initiatives that are underway for better and worse and some working better than others at this point.

Garrett Graff: And give us some sense of what you see the state of the five g competition being. Um, we've heard a lot of rhetoric about this both in the context of of Huawei and the the U s but give us sort of some sense of where you think that the reality of the five g competition is.

Elsa Kania: So also let's say to start five g is into just your race and Huawei isn't clearly winning despite all of the hype and all of the noise around five g. And I think to some extent the Chinese government is to be credited for recognizing the importance of investing in next generation telecommunications as early as the State Council decision in 2007 while we started to have really focused on increasing research and development with an eye towards what would become five g as early as 2009 whereas in the U we've really started having this conversation much more recently. So ad without a quantum time machine, which despite the marvel movies does not get exist. To my knowledge, we, we

can't really go back and try to increase our own investments in a five g at an earlier stage. But where we are today is that a bit of in disadvantageous position at first glance, but I think it's not a race and it's not over yet.

Elsa Kania: It's more of a marathon and things are just getting started. Five G as a technology is really still taking shape and despite all the talk of a race to deployment, the research and development of what will, what five g is becoming or could become in the years to come is still very much an open competition. And Huawei has had an advantage because they've been heavily subsidized by the Chinese government. They have been able to undercut and underbid their competitors in ways that really have undermined the global telecommunications ecosystem. In some respects, they've seized 30% of the market share despite the fact that beyond the rather problematic history of their linkages to the Chinese military and intelligence and multiple incidents of poor security, gluten backdoors breaches. And rather ambiguous circumstances surrounding some security flaws and realities that Huawei again does not have the best technology in five g necessarily.

Elsa Kania: They've just been able to capture much of the market. They've five 50 commercial 5g contracts signed at, at a by the last accounting of it. So they've been able to take advantage of the fact that they're vertically integrated and they're cheap. And that is appealing to many countries. But I think, uh, when we think about the future development of an evolution of five g, a lot of it will depend on research that is ongoing today and some of the fundamental technologies involved four, five g as well as the setting of standards, the rather abstruse process that in some respects has become the realm of geopolitics as well as always been tried to flood the process and claiming their number one cause they have the most patents and contributions. Whereas when you look at the quality, they're still not quite there yet.

Garrett Graff: Yeah. Um, so I want to spend a little bit more time than the sort of thinking about this on the global stage from the geopolitical risk that integrating Chinese technology brings to other countries. And you're sort of seeing this debate play out here in the United States, but also, uh, Secretary Palm Peo and other members of the administration. And I've been sort of out making this argument to US allies, uh, and other western nations. You sort of saw this debate start in Australia last year where Australia tried to speak up very strongly to ban Walway from becoming part of its backbone networks. Um, the UK and Germany are taking a very different approach, sort of viewing this as a risk management problem. Uh, Weiwei has a joint, uh, lab actually with the British GCHQ, the British signals intelligence agency that's the equivalent of the u s NSA. And that they're, they actually sort of put out these annual reports talking about, uh, Weiwei's technology and the problems that they see. Um, and Germany of course has integrated a wall way deep into their own networks as has, uh, Britain with the British Telecom. Uh, how much of a risk do you think there really is to letting Chinese companies establish a foothold in western networks?

Elsa Kania: I think there are real risks and I think it's important to remember that despite all of the politics and controversy that has come into play around Walway, that uh, it is known that Huawei, uh, throughout its history has had some ties to the Chinese military and intelligence continues to actively work with the Chinese military and research. But I think beyond these specifics of --

Garrett Graff: But for instance how different is that from Verizon? I mean if, if we're looking at US companies, I mean, could you say the same thing? Could China be saying the same thing about Verizon's technology or a t and t's technology working with the u government?

Elsa Kania: So I think what is distinct about Huawei and about China's lack of a rule of law system is that there is not a lot of transparency. So for instance, we always found a Rendang fe claim that the company had no research or no collaboration with the Chinese military whatsoever. He had said that publicly in an interview, which is clearly not the case. And there was an open track record of publications that indicate otherwise, not to mention various allegations of ways in which a while was products have either had poor security or what are either bugs or back doors that can be exploited. So I think, but I think beyond the litany of particular incidents from a major data breach of the African Union headquarters to which there is a linkage to Walway to a more recent accounts and uh, allegations that the reality is that hallway as a Chinese company is operating within a system where they could be required by law to support and cooperate with national intelligence work.

Elsa Kania: And China's national intelligence law, which was released in 2017 says that quite explicitly, and that's been, it become a matter of some controversy and while ways willing, but they would not follow the law from, of their own government on some of these friends. And I think the question has also been how much would the law matter when these are authorities that the Chinese intelligence organizations had already. But I think it is clear that the, the relationship between China's party state and tech companies is complicated and often quite opaque from the fact that tech technology companies in China are required to have party secretaries and Party committees whose role within those organizations is not always all that clearly specified as well as the fact that a number of Chinese laws, again the cybersecurity law, the national intelligence law do appear to have these rather expansive authorities with somewhat opaque requirements as to what Chinese companies could be called upon to do.

Elsa Kania: And I the heads in candy con and productive conversations with Chinese scholars of the law who are, who uh, have not quite been able to clarify those issues. And I think there is a level of uncertainty as to what Huawei or any Chinese companies subject to both the laws that exist in extra judicial mechanisms through which the party state could compel their cooperation. It's a very different ecosystem and relationship. And I think that does create systemic concerns that go beyond the character or the history and track record of any particular company and a cases like the UK where there has been an

attempt to balance those risks. The latest report on hallway a was very scathing as to their track record on security. So I think different countries will have different approaches to how they think about wanting to balance and mitigate those risks. But I think when we're talking about five g it's critical infrastructure. It's not just faster four g it's really will provide a of speed and conductivity that could become really fundamental to our societies and economies from self driving cars to medicine. And I think that does pose a unique level of threat or the potential for either exploitation or outright disruption that does result in very specific concerns that I think do justify the decision that Australia has made and that the United States has made in deciding not to want a company like quality in their critical infrastructure.

Garrett Graff: So one of the things that's interesting, I think about the, this sort of five g leap and the challenge that Weiwei provides, uh, around the world is that the u s of course doesn't have a domestic competitor on five g at all. Um, you know, there is no US company that, uh, is developing sort of an equivalent base stations and most of the alternatives globally, uh, are Nokia and Ericsson in terms of five g. But then again, the u s actually didn't have a four g base station, uh, manufacturer either. This was sort of a, uh, realm of manufacturing that the u s just has, uh, really hasn't participated in since Alcatel Lucent went away. Um, and I'm curious whether you think from sort of looking at China and what should the US be doing differently in the way that we are sort of thinking about developing next generation technologies.

Elsa Kania: I think first and foremost, we need to invest in research in American companies and universities and we need to invest in building up this infrastructure to enable the conductivity while closing the digital divide going forward. And I think there's a lot that can and should be done and US policy is the Trump administration is to be credited for recognizing the significance of five g and starting to think about policy options, which is the five g fast plan to facilitate deployment. But at the same time for those reasons and an approach of America first and five g does not work and does not make much sense in so far as we need to think about how we work towards a more healthy ecosystem for five g and one that, uh, changes the rules of the game in which while we is currently winning by virtue of trying to achieve a monopoly or dominance in this industry.

Elsa Kania: And there are a number of American companies that are doing quite innovative and cutting edge work on some of the foundational technologies for five g. But until there are really attempts to change the ecosystem and for instance, move towards more open architectures rather than one in which a Huawei is vertically integrated in Lockton. And until there are attempts to really start to, again, sustain investment, have focused on our own infrastructure, I think we're going to be, so, so far, a lot of the policy response has been very reactive and targeted against Walt way. I think there's much more the u s can and should be doing to think proactively about how do we promote alternatives to hallway and ones that, uh, draw upon the various strengths of a number of different companies in

this space that do have their own potential advantages, but are right now struggling to compete with a powerhouse that is supported to the tune of billions and billions by state subsidies. And it's not been a fair fight, but I think it's, again, a marathon that's getting started as the standards and technologies continue to evolve. So I think there's still opportunities for positive policy interventions.

Garrett Graff: So the last question I wanted to ask you before we bring up the, uh, our previous panelists and sort of get into a bigger, deeper conversation about this is you've argued that, uh, you know, that we sort of tend to overstate the threat of sort of this, uh, you know, 10 foot high Chinese AI, uh, monster and that in some ways in China's push in AI and some of its surveillance technologies actually represents sort of fundamental weaknesses in Chinese society and the future of what the Chinese government is trying to struggle with.

Elsa Kania: Well, the Chinese government is taking a very techno utilitarian approach to how they think about AI at a time when the Chinese economy is slowing and Chinese policy makers are confronting societal challenges that are not readily resolved. And I think to some degree, if you look at China's plan for AI and how they intend to leverage AI to promote economic development at a time when growth is slowing there, there's a hope that AI can increase productivity given demographic challenges of a rapidly aging population. There's an interest in using AI for automation in factories to replace workers. And even in elder care, given the challenges of the elderly population and the unique demographic structure that China has today and then even even in education, healthcare, environmental challenges, there are, there were elements of the Chinese government's approach to AI that are very practical, very pragmatic, but also motivated I think by the sense of urgency that there aren't other solutions readily available in some of these sectors and I think there's this hope that in order to sustain the economic performance that is critical to the party's legitimacy.

Elsa Kania: Leveraging this innovation driven approach to development is seen as absolutely imperative and even a matter of existential importance to China's party state today as they seek to almost look to AI as a silver bullet for a lot of these challenges and some elements of it are quite positive. But there's also of course the darker aspect of how the Chinese party state is trying to use AI for social management as they call it, trying to leverage surveillance technologies to control a massive population. And it often in ways that are quite coercive as is the case in Shin Jong, where as some estimates over a million Chinese wiggers are in essentially concentration camps or euphemistically reeducation and some of these emerging technologies as applied to social control and surveillance or also at the heart of this course of apparatus of the state and how it's trying to sustain power and to preempt any risks leading through very active and more sophisticated censorship online. So there are elements that are positive and productive and could improve the Chinese economy in society. There are also aspects of this agenda that are much more troubling, especially when we look at

the ways in which this, this model and these applications are being actively exploited globally by Chinese technology companies that have, have worth net worth of billions because of the strong governmental demand for surveillance.

Garrett Graff: Great. Thanks so much. Uh, let's bring our first panel back up on stage with our special guest star for this third act. Right. Welcome back to the stage. Um, and, uh, welcome, uh, ambassador Guajardo, um, who, uh, is, uh, another brilliant China mind that we're, uh, bringing in as a ringer for this third act. Um, Eh, uh, Ambassador Eduardo was, uh, the Mexican ambassador to China for six years. A incredibly observant, uh, uh, uh, uh, analyst of, uh, of the sort of current state of Chinese politics. Um, and, and I thought I would sort of kick things off with a question to you here, uh, about a phrase that we actually haven't had. Uh, we haven't heard in the first hour of this conversation at all, which is the Chinese belt and road initiative. And, uh, you know, when we look at sort of this intersection of Chinese technology and Chinese trade, uh, belt and road in many ways is the theme that we are told to be most afraid of. Um, and I'm curious if you could sort of give us a read of what you think sort of the reality of that program is, what its ambitions is and how uh, we here at the ideas festival should be thinking about it.

Jorge Guajardo: Okay. I'm very skeptical. I'm very cynical about the belt and road initiative. Eh, I think it plays very well into a US narrative because it fits very well into the cold war strategy of the Soviets going into other countries and gaining influence and, and it's something you can wrap your arms around and say, oh, the Chinese are doing the same with the belt and road initiative. The way I see the belt and road initiative is just a venue to allocate a over capacity they have in China, they have a huge over capacity in steel and semantic glass and petrochemicals. They don't know what to do with it. They don't want to close those factories because they're afraid of a laying off workers. So they just start these programs in which they send it all over the world, build infrastructure, call it investment. It's not investment, it's just building infrastructure that the local governments pay for.

Jorge Guajardo: And in the process sort of make a lot of eh foreign governments angry. And that is what is happening with Belton road. A, you see more and more that countries that sign on to belt and road initiative end up having campaigns in which opposition candidates pretty much campaign on going against China and ending Chinese programs in their countries. That was a case in Malaysia. That was a case in Brazil. So even though the narrative in the United States that I see is that belt and road initiative is a way for China to gain influence, I really don't see it.

Garrett Graff: [inaudible] um, and also just sort of follow up on, on that, uh, with a question for you here, um, to fit that into the structure of sort of this wowway debate. One of the things that you hear, uh, as a concern is this idea that what we will end up at a, if Donald Trump is successful in sort of walling off Walway from the West, uh, while we actually had a very strong foothold in many, uh, developing countries, 40% of the world's population uses a Weiwei product every day. Um, although much of that comes in the form of cell phone antennas or bait stations

that they don't necessarily know that they're interacting with. Um, how real of a threat do you think there is that we will see a of the currently global interconnected Internet system sort of fork into sort of a Chinese Internet network, uh, in Asia, Africa, Latin America, and in American one, uh, you know, centered in the u s and western Europe.

Elsa Kania: I think that is a real risk given current trends and much of what Walway and other Chinese telecommunications, uh, giants have been doing is often directly linked one belt, one road under the umbrella of the Digital Silk Road. And I think a lot of that is intended to sort of increase their market share, increase their profits, and also to promote Chinese standards for next generation technologies like five g's. So I've joked that a new initiative that is currently undergoing development a China's standards 2035 may one day become as infamous as made in China 2025 because there is the same driving impetus behind it. The notion of trying to sort of love of moved towards a greater dominance within the global technology ecosystem. In this case they're trying to leverage standards that are promoted through this going out of Chinese tech companies in order to really reshape this, a ecosystem going forward.

Elsa Kania: And I think as the controversies on a qual way continue to play out, I think different countries are making different choices on that front based on their own interests in calculations of risks. But I think it does appear to be clear that even if wall way is deeply damaged by some of the measures such as its designation on the entity list, which was actually as a result of its violation of us laws and sanctions, it was a sort of matter of separate from the executive order and separate from the exclusion of Huawei from, from you as critical infrastructure. I think the, I think the company still has certain strengths and its global presence is one of them. And we could be moving towards a more, more fractured global, uh, ecosystem on that front. But I think in some respects we're already there. And again, having recently been to Beijing after a while of not having the chance to go there, it is quite striking that when you're in China, you already are in a very different ecosystem from the, the fact that, uh, for all of the anchored over the banning of Walway, a huge number of American technology companies have been effectively banned in China for quite some time now.

Elsa Kania: And we may forget because it's less recent, but certainly Google, youtube, Amazon, it's a quite extensive, some of the restrictions that have been placed in American technology companies from being able to freely operate in China. And there's already a very distinctive ecosystem of indigenous champions including their own, their own apps, their own platforms that are quite big, quite a strong within China today. So I think we are seeing things move in that direction and the core concern will be, it's possible to maintain interoperability despite this, a greater fragmentation ambassador.

Michael Froman: I just wanted to double down on what was just said because if we think about this as one of the major trends of de-globalization, um, whether we're putting

up tariffs or other restrictions on the trading goods, we see new rules being put out on, on data and information which are creating national internets and national clouds and things of that sort. But I think the third one maybe in some ways the most significant, which is the standards piece and there is great value in having global standards that are interoperable. That's a key part of what has allowed the global economy to work so efficiently. And Are we finding ourselves in a world where there are at least two sets of standards and may be in some of the islands have called it an archipelago of standards where there are no more interoperable standards and what that means for companies and individuals who are traveling, working, trying to trade, trying to provide services, uh, in a world in which you can no longer rely on the fact that the standard that applies in one market is gonna be applied in another. It has really brought in for chemistry implications. Great.

Jorge Guajardo: Let me just give you an anecdote on Huawei in the world from the Mexican perspective. When I was ambassador to China, Mexico had a sort of an unwritten agreement with the United States that we would not let Weiwei develop our telecommunications infrastructure. And the, and a Chinese would be very aggressive. CTE and Huawei, they would come to the embassy or they would go to Mexico, tried to find ways in the infrastructure in particular. And of course they'd be revolved kindly, a cost, a lot of anger in them. And we kept it that way. Fast forward to president Trump and incomes, he's effective towards Mexico. And of course Mexico said, well, there is no reason to continue collaborating with United States on this front. Who welcome for way, welcome anything you want. So it's weird how it's been present. Trump who's been going at going after all these other countries, not to use what we product, at least in the case of Mexico. He's the reason that Huawei was welcoming to Mexico.

Garrett Graff: Uh, so let's open it up to some audience questions at this point. On the off chance, we haven't answered all of your questions about China. Uh, we have microphones I think on either side. So sir,

Audience Member: hi, my question is for Elsa. When we talk about us China trade, it seems like the debate stipulates, um, Chinese theft of American intellectual property. Can you one, do you believe that that is still occurring today? And two, could you give, you know, the, the audience, uh, some examples let's say in the past five years of material IP theft?

Elsa Kania: Sure. So a very recent example speaking of Walway is that a, they have been charged with and found to have stolen IP from a silicon valley based startup in telecommunications. The buzz of quote, recent case that was adjudicated think across the board, Chinese industrial espionage as a government driven approach to trying to catch up has been quite pervasive. There have been a number of recent indictments launched by the Department of Justice under their China initiative that have looked at a threat. Actors often linked to the Ministry of state security going after US companies. Quite extensive data theft, including the Garmin was mentioned in some of the recent indictments. Thank a

number of examples in the defense space as well. Run a recent data breach at a US Navy contractor that had a targeted next generation weapons systems. In some cases, some cases, tech transfer is also been actualized through very targeted acquisitions or mechanisms to access foreign technologies.

Elsa Kania: This has been particularly prominent and semiconductors that is a sector where China's industrial policies have not worked very well. There has been your cog near constant by some accounts targeting of American and international semiconductor companies, both the cyberespionage and often human espionage. And I think there's a quite a number of cases that are public. Those are just a couple of recent examples. Happy to defer to colleagues on the panel if they have any particular, uh, particular anecdotes they want to bring up as well. But I think it is clear that China is quite capable as a cyber threat actor and often that has been targeted target against American companies when, as she has been that sometimes US companies don't want to go public about what they have experienced, including because they're still hoping to sustain access to the China market. And sometimes the sort of IP theft or tech transfer can occur through through joint ventures that can be mutual, mutually beneficial, but in some cases can prove to be problematic. So I'd say I think a China's attempts to catch up with the U S I've leveraged quite a range of tactics, some, some legal, some illegal, and in some cases, even academic collaborations have become a means for Eskenazi as well. Does that gets into often much more ambiguous territory.

Garrett Graff: So I want to bring in both the ambassador Froman on this and then Amy Celico as well. Um, because this was, uh, I, I think a lot of Americans don't understand, uh, the extent to which China's economic rise over the last 20 years has been directly powered by economic theft, uh, of, uh, intellectual property from the United States and other than Western countries. I mean, General Keith Alexander has called it the greatest transfer of wealth in human history. And this was an issue that landed right on your portfolio and master Froman, uh, with the Obama administration's attempts to sort of begin to try to call out this behavior publicly. Uh, most famously with the May, 2014 pla indictments for economic espionage for the first time the u s had ever gone after a foreign nations, uh, for economic espionage. Um, and, and this was sort of a great example of how the U S was trying to carve out sort of national security concerns, criminal concerns from all other topics. So this should be sort of a separate lien of diplomacy and international discussion. I wonder if you would sort of talk about your experience there.

Michael Froman: Well, I guess I'd say a couple of things. One is I found that the times we were most successful in influencing, uh, China behavior was when there we aligned our pressure from the outside with some domestic constituency that also, uh, had the same set of interests. And as China began to develop its own strong intellectual property, you had constituencies within China who wanted to see further protection of intellectual property rights. So we saw some meaningful improvement in some areas, uh, when you could align, uh, your, your, your

talking points with those of they were being made internally and, and try and have an impact, uh, that way. But I think, uh, as appointments mentioned, one of the key things is a is is through for example, joint ventures, um, where if you require a company to come in through a joint venture, then the local joint venture partner has an awful lot of leverage to say this joint venture was made possible only if you transfer the following technology to the joint venture.

Michael Froman: And that's been a longstanding partner, a pattern. It's one reason why in the bilateral investment treaty negotiations and, and other negotiations, you try and lift those joint venture requirements so that if you can have 100% ownership, you can set up your own company, you may choose to do a joint venture, but then you're at least making that decision on commercial terms and on a commercial basis. So I think there are ways of having a positive influence in this area, both by aligning and by changing some of the structural dimensions of the system, which sort of insane incentivize this kind of behavior.

Garrett Graff: Amy, I thought I would sort of ask you the same question. As someone who is advising companies on how to do business with an in China, how much reluctance are you seeing and how much reluctance are you suggesting companies have towards protecting intellectual property?

Amy Celico: Well, I guess the point I would make to the questioner is absolutely, we continue to see significant allegations of intellectual property theft, whether it's Chinese trying to reverse engineer technology that's sold in the market or flat out stealing. And so our clients face those concerns. But I, I do want to also highlight what ambassador from and was saying that the Chinese government acknowledges this is a problem for China's innovation economy. You know, the reason that, uh, many claim the, the, the negotiations between the u s and China broke down in early May was because there was some reaction within the Chinese government against the U s demand that China change laws in order to demonstrate that it was going to uphold this, this new, uh, trade agreement. But in China has been changing laws. They just passed a foreign investment law and they just passed a number of intellectual property related laws, which I only say underscores the fact that the Chinese government acknowledges this is still a problem for China. It's a problem in the bilateral relationship, but it's a problem for China too.

Garrett Graff: alright, uh, right down here,

Audience Member: Mark Davis if things don't go well in the negotiations coming up I think tomorrow, uh, and we enter into an escalating and protracted trade war. Um, given the politics of both, uh, both countries, which country blinks first.

Garrett Graff: Okay.

Garrett Graff: That sounds tailor made for ambassador Froman.

Michael Froman: Uh, look, it's, it's really a impossible to tell I think. I think from the Trump administration's perspective, there's sort of an a no lose situation in that if they get a really good agreement with China, then he will have been the, the great deal maker. And if they don't get a good agreement and they continue to escalate tensions, he will be standing firm piece of each China. And I think both are politically attractive heading into 20, 20, provided it doesn't lead to a huge collapse of the stock market or another recession. And I think that's the governor on, uh, any kind of behavior there. I think one thing we have to bear in mind is tariffs are very easy to put on and very difficult to take off. We have a 25% tariff on pickup trucks in the United States because of the chicken war of 1963 with the European Union. They kept our chicken out. We slapped 25% tariffs on Volkswagen vans and that's been in place ever since. And when you have vested interest that then begin to build business models and have strong affinity for tariffs, it becomes much more difficult to take them off. And that's one of the things I worry about is the longer these tariffs are in place, whether it's on half of China's exports or on all of China's exports, the harder will be to deescalate over time.

Garrett Graff: Ambassador Guajardo. Do you concur with that assessment and how she is looking at this?

Jorge Guajardo: Yes, I do concur a, I also don't fully understand what a good deal is. What constitutes a good deal? I mean a, is it a buying a, a, an offer to buy more eh, US products if that's what it was. It wasn't worth this whole eh, thing. If it's just the Chinese commitment, they've made them before. So I'd be skeptical of anything that's sold us a great deal.

Garrett Graff: Uh, I'm sorry. Are you saying that you think it's possible that Donald Trump has entered into a foreign policy crisis without necessarily understanding what his exit strategy?

Jorge Guajardo: I would never, ever, ever say that he would do such a thing.

Michael Froman: But you're still a diplomat.

Jorge Guajardo: But honestly, yes, that's exactly

Jorge Guajardo: what we're doing now. Let me tell you something like the way I see, and that's sort of an outlier way of the way I see how he's approaching China and I like it, Eh, and, and, and it, I feel awful saying, Eh, I like something that he does because I'm a Mexican and a, that should explain how I feel about president Trump. Nevertheless, the way he started pushing back on the Chinese was something that I liked in the beginning. The way he started pushing back in several ways. [inaudible] and it was a, I mean Amy and a lot of my China watching community friends in, in Washington will disagree about something that I liked was that he had no China hands, Eh, involved. So there was a

nobody, the Chinese could go in appeal to, you know, the long term relationship and so forth. It was just like give me a deal.

Jorge Guajardo: And the other things that the Chinese would weaponize to their advantage in North Korea for instance, and then comes percent drop it. Oh No, I'll just talk to Kim [inaudible] [inaudible] the Chinese don't know what to do with that in a climate change with what's an issue in which they would hold back other trade concessions or I'm going to quit the Paris agreement now. I don't agree with any of those things. I'm just saying it through the Chinese off and it certainly put the u s in a position to capitalize and extract a lot of games from there on. I'm not sure they had a strategy for or, or a vision for what exactly was that they wanted. So that's why I'm no skeptical on what they will call a win.

Garrett Graff: Richard Haas yesterday morning here at the ideas festival, uh, was pressed into admitting that he thinks China might actually be supporting president Trump's reelection for 2020, um, uh, not in terms of in the election interference, but that they sort of feel like that he is actually the best partner that they could have in us politics right now. Do you think that that's true?

Amy Celico: Well, I think the reason that Richard Haas believed that is because if Donald Trump continues along the same path of weaponizing trade policy unilaterally, um, you know, our close friends and partners are going to say, we don't, we don't want to be part of this, uh, this system. And so, uh, the, for the Chinese that will help them make friends and influence people even better and more easily. I think what we were talking about earlier was that within the Democratic Party, there is a view that, okay, getting tough on China works, but doing it alone won't work. Because as much as maybe it was great to see the Chinese back on their heels and really unsure of what was going to happen, what have we gotten for it? We've gotten nothing, nothing. We've gotten nothing. And to the point of will there be some, you know who's going to blink first?

Amy Celico: I think on the Chinese side they don't know when the blinking will stop. Even if there's a deal announced, sat doesn't mean president Trump, you know, two weeks from now won't do something else that will destabilize the relationship again and so the, the Chinese are trying to do things. Xi Jinping going to North Korea for the first time so that he has some leverage in his pocket to say to the, to to the u s president, okay, you want to make a deal with North Korea. You do need China's help on this. Because I've been talking to Kim Jong Gone. I mean I do think president, she is working very hard to get back in a place with more leverage with the United States. And to answer your question, yes, I think they see president Trump acting unilaterally is better for China than the alternative.

Jorge Guajardo: And just one final thought and, and I think it'd be disingenuous to assume the Chinese are not watching what happened with Mexico, with the US and Mexico, in which Mexico reached an agreement, made their respective plantations. They accommodated the United States demand only to be targeted with a blanket

tariffs. So what's the incentive for China to agree to anything if they know they're always going to be in the crosshairs? So the incentive is not to do it,

Michael Froman: but I have to say I'm surprised how much other countries are willing to accommodate the Trump administration's approach because you're absolutely right. The Europeans said, we'll never negotiate with the United States under the threat of tariffs. And then they got on the plane and flew to Washington to negotiate Mexico re to u s MCA immediately impose tariffs. Mexican government was immediately in Washington negotiating a new agreement on immigration. And even China, who've always said, we'll never negotiate under the threat of tariffs. Here we go. We're continuing to negotiate. They're eager to get back to the table. It sort of sends the message to President Trump that his approach is working is that it is bringing, it is creating leverage to other people's points here though. The question is can you turn that leverage into an actual agreement that was worth it and that is worth the cost that has been a in, in, in, uh, implicated in the meantime.

Garrett Graff: All right. I think there was a question over here.

Audience Member: Yeah. My question is about mining and processing of rare earth minerals. Um, my understanding is that China has a dominance in this industry and technology and that these minerals are essential to all the high technology devices as well as all of our complex defense systems. So I'm just curious of the panel's opinion on that. Is there, uh, what is the u s doing about this? Is this something we should worry about in the long run?

Elsa Kania: Sure. I think absolutely, that could be a pressure point. And there's been concerted signaling from Japanese policy makers that they are considering using rare earth. So as an instrument, uh, as the potential pain point, given that I believe at present, China produces 90% of the world's rare earths and, uh, 80% of rare earth exports to the u s do you come from China? Think that would be a rather drastic option that we may see rolled up. Perhaps if the latest round of negotiations go off the rails. I think some of the negative externalities for China could be if other producers ramp up their own production given aware earth's aren't exactly rare despite the name. And there are, are other potential suppliers and alternatives going forward. But certainly, uh, the Chinese government has been signaling that they do have this instrument should they choose to use it and they couldn't impose some pain at least in the near term. So that will be something to keep an eye out for going forward.

Garrett Graff: All right, question over here.

Audience Member: Excellent discussion. I appreciate it. You know, the title of this is us, China and the future of the 21st century, right? So I've got a simple question for anybody in the panel. Where will us China be in 2030?

Michael Froman: Simple question.

Amy Celico: Well I think we really do have two distinct possibilities and the possibilities are that the relationship is going to in some ways stabilize on a more competitive footing, uh, and the relationship will get much worse. I don't think anyone sees foresees the possibility that the relationship is going to improve dramatically given all of the competitive elements of our relationship and the increasing concerns with which we view one another. It's not just just here in Washington d C that we're concerned about, uh, about China. China also again the Huawei action that the u s took just reinforced within China. The need for self reliance, self sufficiency and discriminating against foreign investors in their market. And so there is the possibility the relationship could stabilize in this kind of competitive environment because there still are so many global issues which do require our two countries to cooperate. Or there's a possibility where there could be a new cold war and that will force other countries to choose sides. And I think in that scenario one, I very much hope doesn't happen. The United States would be very disappointed in what some of those choices will be.

Jorge Guajardo: If I may just start and I don't know where the you guys are trying to, we'll be in, but [inaudible] will, eh, leave you with a nugget to think, eh. When you think of China, the Chinese Communist Party has been in power for 70 years. Eh, the two longest lasting single party systems in the world have been, Eh, the Communist Party of the Soviet Union and Mexico's Pri, Eh, the Communist Party, the Soviet Union lasted 70 years. Mexico pri lasted about 72. Eh, the Chinese Communist Party has just surpassed the Soviet Communist Party. It's about a year away from reaching the Mexico's Pri. What I'm just, Eh, the reason I'm saying this is don't assume that eternal history does not say single party systems are eternal. They may very well not being power in 2030. That's something to think about.

Garrett Graff: And that was sort of one of the points you were making during your first session today is that we, we shouldn't necessarily assume that today's linear trend stay linear.

Amy Celico: That's right. I,

Amy Celico: I, that's a great point. I really do agree with that. But I will say in the Chinese system, the dynasties tend to last a couple of hundred years. And so this is just the latest Chinese dynasty.

Garrett Graff: Alright. Uh, back there

Audience Member: before the Trump administration, the previous 25 years, China make great progress dealing with the United States who was somewhat naive. If you look back, what do you envision if the Democrats take the presidency, what kind of relationship would be with China? How would we do? How would they do?

Michael Froman: Yeah. I guess I'm the Democrat here. Um, look, I think as Amy said, I don't think it's going to swing back to anything close to the where it was before. I think there's a bipartisan agreement that it's important to be tough on China. I think

there will be potentially differences in the tactics and the strategy being used, how much we cooperate and actively work with our allies on a common approach to what degree we use tariffs or not, which we use for an investment restrictions, uh, or, or not. Um, and to what degree we think that further engagement will help. To continue to evolve of all the systems. So I think it's, it's hard to know exactly what the policy will be, but my guess is it'll be, there'll be arguing for something that's smart and tough, but still tough. Yeah.

Garrett Graff: So I think that that's a, a great question that I want to put to Amy here for a second in the context of, um, and you were sort of talking a little bit about this during your first session that some of what we're seeing with the Trump administration is actually just, uh, the Washington consensus around China has changed just fundamentally, and that, that happens to have happened while Donald Trump is president or sort of as the Obama administration was ending and the next administration was coming that we sort of thought that China was going to liberalize it, was going to become, uh, you know, sort of better integrated player in the world community and that that was sort of proving not true actually, even before the Trump administration came in. Um, so, uh, I'm curious sort of how different of a policy do you think Hillary Clinton actually would have carried out? Uh, with in regards to China, then Donald Trump is doing

Amy Celico: well. I'd like to hope that, um, that TPP would have been passed. It was of course very difficult to campaign on. But when we think about TPP as a strategic priority for keeping the United States engaged in Asia, it was incredibly important. And so I do believe that, you know, we're looking at ambassador Froman here who negotiated the agreement. This wasn't just about trade ties. This was about the future of the United States in that part of the world. And incredibly important part of the world knowing that China is there too and hearing after many years of complaining that the TPP was about in circling China, um, by the end of the Obama Administration hearing moth, uh, Chinese officials saying, well, maybe we could join one day too. And so actually the United States setting the standards for 21st century, uh, free trade agreement because we were having such a hard time at the WTO.

Amy Celico: And so the only point I'll make on what would it, what would a Clinton administration potentially have looked like or the next democratic administration? I do think we have to go back to the question of can we reform the World Trade Organization as a mechanism again to try to bring, uh, the Chinese into adhering to global rules. They can adjust those rules with us as we look at making the 21st century WTO. It proved so hard that I think it led to, um, not only TPP, but other regional trade agreements. I do think the Democratic Party has that in mind. Why? Because it would involve China, but it would also involve our other allies in trying to reinvigorate

Garrett Graff: ambassador Froman. I'll give you the last word on the panel today.

Michael Froman: I think just to one more point on the gentleman's question, I think one of the key aspects may be reengaging with through American leadership that, um, yeah, there's been a view that we've retreated, retreated from Asia, retreated from the multilateral system. And I think that one way the Democrats may differentiate themselves, even if they have the same objectives in mind vis-a-vis China, is that we're going to do through, so through US leadership, through us engagement, whatever form that takes.

Garrett Graff: Great. Thank you to all of our panelists today for a really great conversation.