

THE ASPEN INSTITUTE

CHIMERICA  
ASPEN IDEAS FESTIVAL

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## 1 PROCEEDINGS

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3 MR. STOSSEL: Please take your seats so we could  
4 begin. I think what I'll do is -- are they waiting -- is  
5 someone going to give the signal to -- oh, okay. Okay.  
6 Can we maybe please take a seat? We're ready to get  
7 started here. I'll give them a minute to get seated.

8 Well, thank you all for coming here this  
9 afternoon. It's a beautiful sunny day. So it's a  
10 testament to the stature of my two co-presenters here that  
11 this many people have come in from the outdoors in order  
12 to listen to our discussion about Chimerica. And I have  
13 to say too that actually for me this is, in a way,  
14 research for my next book.

15 And my next book, I have to say, has nothing to  
16 do with China or the global economy or relative global  
17 powers in the aftermath of the bubble. It's about  
18 anxiety.

19 (Laughter)

20 MR. STOSSEL: And sitting between two intellects  
21 as formidable as these in sort of academia and journalism  
22 is very intimidating, and needless to say, anxiety-

1 provoking. But I will do my best to rise to the occasion.  
2 And without further ado, let me -- what I'd like to do is  
3 actually introduce each of our panelists and then give you  
4 kind of a brief overview of what I hope we will cover in  
5 the next hour and 15 minutes that we have here.

6           And I want to make sure that we leave at least  
7 15 minutes and ideally more for question and answer from  
8 the audience at the end. So let me start with -- to my  
9 right here is Niall Ferguson who is -- he has so many  
10 academic affiliations that I could probably actually fill  
11 the entire hour and 15 minutes simply listing them.

12           But just abbreviating them, he is the Laurence  
13 A. Tisch professor of history -- is that right? -- at  
14 Harvard University and the William Ziegler professor at  
15 Harvard Business School. He's also a senior research  
16 fellow at Oxford and a senior fellow of the Hoover  
17 Institution at Stanford. He's the author of 10 books -- 9  
18 books -- a whole lot of books, many of them award-winning  
19 and best-selling.

20           And actually I can personally recommend at least  
21 two of them, neither of which actually have anything to do  
22 with the topic of the discussion today. But in

1 particular, there was a volume that you edited on virtual  
2 history, and I am a real fan and aficionado of  
3 counterfactual history. So the volume you edited on  
4 virtual history was actually absolutely terrific.

5           And he wrote a very provocative and interesting  
6 novel about World War I called the *Pity of War* probably  
7 about 10 years ago now. But among his many other books  
8 he's most recently written a book called the *Ascent of*  
9 *Money: A Financial History of the World*. And he is also,  
10 I believe, the coiner of the term "Chimerica" along with a  
11 colleague which graces the title of this panel and which  
12 we'll talk about at greater length in a few minutes.

13           To my left here is my colleague, James Fallows,  
14 who is the author of many books and has been a national  
15 correspondent at the *Atlantic* for most of the last 30  
16 years thereabouts, in which capacity he's written on  
17 everything from technology to U.S. politics, to aviation -  
18 - which is a personal passion of his -- to national  
19 security, to -- my personal favorite -- why Hillary  
20 Clinton throws like a girl --

21           (Laughter)

22           MR. FALLOWS: I can explain.

1 (Laughter)

2 MR. STOSSEL: For the last 3 years, he's been  
3 based in Shanghai and Beijing among other places that he's  
4 traveled around -- East Asia where he's filed numerous  
5 reports on China. And some of those reports have actually  
6 recently been published in a collection in his most recent  
7 book which is called *Postcards from Tomorrow Square* which  
8 I recommend that you all buy. Now, just to give you a  
9 brief --

10 MR. FALLOWS: Can I interrupt for a second?

11 MR. STOSSEL: Yeah.

12 MR. FALLOWS: I should introduce my friend and  
13 colleague, Scott Stossel, of the *Atlantic* who learned  
14 about an hour ago that he'll be moderating this panel.  
15 And we're very grateful for him doing this.

16 MR. STOSSEL: That's right. So actually there  
17 are -- because -- you know, there is the cliché that there  
18 are no stupid questions. Well, I'm going to demonstrate  
19 that.

20 (Laughter)

21 MR. STOSSEL: And so that means that for all of  
22 you when it's time for Q&A you can't possibly surpass me.

1 So any question is fair game. But I want to -- this is a  
2 broad-ranging discussion -- I think we're going to cover a  
3 lot of ground. But in -- there are two basic issues that  
4 I think we want to cover here.

5           One is the kind of general symbiotic  
6 relationship between China and the United States, the  
7 economic relationship in particular -- and I'll give you a  
8 little bit more detail about that in a moment -- and the  
9 other is the effect of -- you know, that relationship has  
10 been in effect for many years, in some ways since all the  
11 way back to 1972 when Nixon went to China, but in  
12 particular since 1970 -- since 1996, let's say, when the  
13 amount of U.S. cash holdings that China has held has grown  
14 incredibly rapidly from, I think, \$100 million at that  
15 point to -- on the order of \$2 trillion today.

16           So part two is what has the effect of the  
17 bursting of the bubble, the crash of 2008, as it were, had  
18 on that particular relationship, and then more broadly on  
19 great power relations in the world. So if there were a  
20 shorthand title for what we're going to cover today, it's  
21 kind of how will the crash reshape the world with special  
22 emphasis on the Chinese-American relationship.

1           So starting from that basic topic, the question  
2 I want to pose to both of you is -- I've actually been  
3 talking to one of my colleagues recently who, in a very  
4 different terrain, has been -- was actually off over the  
5 last couple days interviewing Quentin Tarantino who is a  
6 filmmaker who is well-known for his predilection for the  
7 proverbial Mexican standoff which is -- going back to  
8 *Reservoir Dogs* and then in every subsequent movie -- the  
9 situation where, you know, if Jim and I were in a Mexican  
10 standoff I would have a gun to his head, he would have a  
11 gun to mine -- it's kind of mutually assured destruction.

12           Over the last, say, 15 years, China and the  
13 United States have entered into a relationship where, as  
14 Niall has sketched out -- it's, in effect, kind of one  
15 economy. Together we are -- some huge percentage of  
16 global GDP and even larger percentage, I think, of global  
17 economic growth over, say, the last 6 years and -- except  
18 we approach in very different ways.

19           China is very much into producing and saving,  
20 the United States is very much into consuming and  
21 spending. This relationship, depending how you look on  
22 it, is either a kind of very constructive symbiotic

1 relationship, or you could argue that it's a -- there's an  
2 economic term for it which is, I think, "stable  
3 disequilibrium."

4           At some point, the fear is that the stable  
5 disequilibrium will no longer be so stable. So let me  
6 start by asking you. Is this a Mexican standoff which is  
7 going to end badly with sort of mutual suicide, or is it  
8 one in which we can sort of sustain it indefinitely and  
9 there is, you know, continual gains to be won on both  
10 sides? And let me start with you, Niall.

11           MR. FERGUSON: Well, the Tarantino paradox is an  
12 interesting one, but I'm not sure it's appropriate. The  
13 Cold War was a Mexican standoff in your definition in the  
14 sense that the doctrine of mutually assured destruction  
15 really did mean that both the superpowers were pointing  
16 atomic weapons at one another's heads. Chimerica I've  
17 likened more to a marriage that is in trouble.

18           And let me just say a little bit about where  
19 this term came from, because I think it helps to set the  
20 scene. Before the crisis, I was sitting with one of my  
21 old friends, Moritz Schularick, a very clever German  
22 economic historian in a Korean restaurant in the west end

1 of London. And we were trying to work out what was going  
2 on -- this was in late 2006.

3           And every single asset that you could name --  
4 stocks, bonds, vintage wine, commodities -- had gone up  
5 that year and the correlation was extraordinary. And we  
6 had to come up with an answer to what was going on, and  
7 the answer was Chimerica. I said there's one economy --  
8 all you need to know is China plus America. That is the  
9 driver of the global economy today.

10           And it has become one economy. So Chimerica was  
11 really born at the peak of the boom that went bust in mid-  
12 2007. And as you've said, Scott, it's an extraordinary  
13 symbiotic relationship that developed. It was partly  
14 because the Chinese adopted an export-led strategy. And  
15 in order to export manufactures, they couldn't allow their  
16 currency to appreciate, which it naturally would have  
17 done.

18           And this gets us into the counterfactual  
19 question of what would have happened if they'd not done  
20 this. So they consistently intervened in order to prevent  
21 the yuan from appreciating. And in doing so, over the  
22 last 10 years, they began to accumulate in extraordinary

1 quantity of dollar-denominated securities mainly --  
2 they're not exclusively U.S. government bonds.

3           Now, in doing so, the Chinese were feeding the  
4 American borrowing habit. So on the other side of the  
5 equation you have the United States not only buying  
6 Chinese manufactures in Wal-Mart, but also running a  
7 current account deficit of more than 6 percent of gross  
8 domestic product and financing it with Chinese savings.

9           Now, this was an extraordinary reversal of the  
10 traditional pattern in international capital flows. It  
11 meant that money was flowing from a poor country to a very  
12 wealthy country. And this struck as something of a  
13 puzzle. So the idea behind Chimerica was that this was an  
14 abnormal relationship, though a very important one, and  
15 that's why the word is a pun.

16           It's a pun on the word "chimera." The idea  
17 behind Chimerica was that it couldn't possibly last.  
18 Think of it like one of those marriages you've probably  
19 come across in which one partner does all the saving and  
20 the other partner does all the spending. Now, that's not  
21 just going to last a certain amount of time, but after 7  
22 years the strains and stresses begin to show.

1           And in 2007, partner two, the profligate  
2 partner, the American half said, honey, I maxed out on the  
3 credit cards. And so from my point of view what we're  
4 witnessing at the moment is the beginnings of what will be  
5 a pretty messy divorce as the Chimerican marriage hits the  
6 rocks. So that's my take on it, Scott. Jim?

7           MR. STOSSEL: And I want to come back to that  
8 too, because I know you're saying that Chimerica is, in  
9 fact a chimera that's going to end.

10          MR. FERGUSON: Yeah.

11          MR. STOSSEL: But let me turn to Jim now.

12          MR. FALLOWS: I may take a parallel path from my  
13 different, you know, professional approach to this over  
14 the journalistic rather than academic -- agreeing most of  
15 the way and probably coming to the point of disagreement  
16 at the end of what's likely to happen to this marriage.

17                 It is true that China and America have been one  
18 economy, sort of; to the same extent it's true that China  
19 is one country, sort of. And all of the sort of variances  
20 and deviations and then messiness of China itself are part  
21 of what I'll mention there. I think that the way that I  
22 came most clearly to understand the connection between the

1 Chinese economy and the parts of the U.S. economy to which  
2 it's linked was by spending time both -- mainly in  
3 interiors.

4           One is in the factory zones of Southern China  
5 where most of the outsourcing has happened, where, you  
6 know, this kind of can which you would buy in the drug  
7 store here was made in some U.S.-owned factory in China.  
8 And then with the bankers in Beijing who are doing the  
9 actual recycling of the money, how they are deciding to  
10 take the dollar that's spent in Wal-Mart and goes to  
11 Guangdong and goes to the People's Bank of China and comes  
12 back in a Treasury now, how that actually works.

13           And I think that to me the two crucial aspects  
14 that I think are perhaps under-recognized in the U.S.  
15 discussion of this phenomenon -- number one is the way in  
16 which the Chinese model is based on but different from the  
17 preceding East Asian economic development model -- the  
18 Japanese models applied in Korea -- South Korea and Taiwan  
19 and Singapore and the rest.

20           And I lived in Japan for a couple of years and -  
21 - 20 years ago during its boom -- and so this contrast was  
22 often on my mind. What struck me was how much from the

1 start the Chinese development model had been designed to  
2 incorporate western, especially American capital and  
3 markets.

4           That the -- what's striking when you went to  
5 Japan in the 1980s or now how few of the exporters were  
6 foreign companies, how much of the actual productive might  
7 of Japan was Japanese-owned, these Japanese champion  
8 companies. In China, almost all the exporting is done by  
9 foreign-owned companies.

10           Now, that was a deliberate part of Deng  
11 Xiaoping's model to let things be open starting first in  
12 Shenzhen in Southern China and then letting things go from  
13 there. So that's one part that they recognized the East  
14 Asian development model of industrialization first --  
15 sorry, of having this export-led model but something that  
16 was meant to be incorporated with the outside world as  
17 opposed to being a kind of head-to-head challenge as I  
18 think the Japanese one was designed to be.

19           The other was, I think, the political calculus  
20 behind this, which was that the risks of piling up all  
21 these assets and having so much of the money, especially  
22 the last 5 or 6 years, be amassed in U.S. dollar assets.

1 This was better than -- this is less risky than other  
2 risks that China might run.

3           Those other risks might be slowing the spread of  
4 manufacturing employment which was the main relief valve  
5 that kept people coming in from the farm, of having some  
6 kind of political disruption with the U.S. I think that  
7 while putting their assets, their earnings in dollars is  
8 mainly a financial decision, it's been, you know, where  
9 else are they going to put them.

10           It's harder to put them in euros or yen or have  
11 the RMB become international currency. It was mainly a  
12 financial decision. Everybody recognized the political  
13 side effects, the political benefits of trying to have  
14 this relationship. Whether -- there's more to say, but  
15 just to come to the point where -- of disagreement.

16           My sense from having been in China until, I  
17 guess, about 2 weeks ago and seen the reverberations of  
18 the downturn is that this is a shock, but not an end of  
19 the relationship. And certainly within China it's being -  
20 - the shock is being absorbed, and we can talk about how  
21 it's being absorbed. But I think there is a -- it's  
22 impressive to me how little of the mood I sensed in Japan

1 strongly 20 years ago I sense now in China.

2           That mood in 20 years ago in Japan was  
3 essentially we are succeeding therefore you are failing;  
4 we are number one, you must be number 10, et cetera. I  
5 think there is a sense partly because of parochialism of  
6 China in general, people are interested in China, not  
7 other places, but also a kind of canniness by people at  
8 the top.

9           They recognize they are better off letting this  
10 relationship continue than they are in any conceivable  
11 other configuration. So I agree with you on the nature of  
12 it. I think it will endure for a while.

13           MR. STOSSEL: What would make the relationship -  
14 - the economic relationship not continue? I mean at this  
15 point the -- again, there is a vested interest on the part  
16 of both parties. America's spending and borrowing, and in  
17 fact, the government at this point spending and borrowing  
18 is dependant on the continued willingness of the Chinese  
19 to, you know, hold on to these American assets and not  
20 drop the dollars.

21           For the Chinese it's sort of the inverse. I  
22 mean have either of you seen any sign of -- and there have

1 been some, but how serious are these of the Chinese -- you  
2 know, is it just simply rhetorical posturing when they  
3 say, you know, we're thinking of dropping these dollars or  
4 you better get your house in order because we don't trust  
5 the safety of the dollar as a --

6 MR. FALLOWS: Can you give a domestic Chinese  
7 reaction to that, then you can give the outside view of  
8 the domestic. I spent -- I did an article that you were  
9 involved in about a year ago which was based on a long  
10 sort of courtship and then interview of Gao Zhisheng who  
11 was the man in charge of China's foreign investments.

12 And while from the U.S. and western point of  
13 view we're thinking about how he's going to be running our  
14 economies, his major concern is criticism from within  
15 China about how the investment in Blackstone has gone bad  
16 and how, you know, that their -- how their hard-earned  
17 money is being blown away by these Americans.

18 So I think that the main -- I think when we hear  
19 posturing from Chinese senior economic officials about how  
20 they got to be tougher on the U.S., we should bear in mind  
21 that the audience for almost any Chinese pronouncement is  
22 inside China.

1           MR. STOSSEL: But it does rattle the markets  
2 when they do that internationally.

3           MR. FALLOWS: Yeah.

4           MR. FERGUSON: Well, you have to bear in mind  
5 this isn't just a matter of volition. Chimerica is  
6 falling apart in actuality. The latest trade figures show  
7 that China's exports declined by 25 percent year on year,  
8 in a year to me. That's a devastating decline by any  
9 standards. That's a faster decline in trade than occurred  
10 during the Great Depression.

11           The second point is that the Chinese see  
12 themselves as having huge exposure to the U.S. dollar and  
13 to the U.S. bond market -- just a clarification -- forgive  
14 me if I become slightly nerdy at this point. The Chinese  
15 have about \$2 trillion worth of international reserves,  
16 but that is not all dollar-denominated -- about 80 percent  
17 of it or thereabouts. We don't know exactly if it's  
18 probably dollar-denominated assets.

19           But of that total, only around \$763 billion are  
20 held in U.S. treasuries; that is to say debt of the  
21 federal government of the United States. That's a pretty  
22 big number. It's gone down, though. The most recent

1 numbers show that they have reduced their holdings of  
2 treasuries. For the first time in more than a year  
3 there's been a decline and the reason is clear.

4           They see U.S. fiscal policy as being out of  
5 control. The deficits for this year is likely to exceed  
6 \$2 trillion in practice, which means that the gross  
7 federal debt is going to rise from \$9 to \$11 trillion.  
8 And the Chinese look at this and they just can't see how  
9 this can end any other way than in a drastic depreciation  
10 of the dollar.

11           I think they rule out a default on the federal  
12 debt. They've been expressing anxiety about this now  
13 since the Davos World Economic Forum when Wen Jiabao made  
14 what was a measured but critical statement about U.S.  
15 policy. Now, in a series of repeated statements, the man  
16 who runs the Chinese Central Bank, Zhou Xiaochuan -- I  
17 think I've pronounced his name roughly right -- has said  
18 it is time we moved away from a world in which the U.S.  
19 dollar is the international reserve currency.

20           We need a new system. In that new system  
21 something like the International Monetary Fund's special  
22 drawing rights should take its place. And the IMF itself

1 should become more of an international player, more of an  
2 international regulator of the monetary system.

3           So Chimerica has already drastically changed --  
4 a) because trade has collapsed -- and remember, it's not  
5 going to bounce back with the U.S. savings rate now  
6 approaching 7 percent of disposable income; and b) the  
7 Chinese have come out and openly said they doubt the long-  
8 term viability of U.S. fiscal policy, and therefore of the  
9 dollar as an international reserve currency. These are  
10 astonishing statements.

11           MR. FALLOWS: Let me offer another perspective  
12 on these statements if I might, and this is -- this I  
13 offer as a friendly observation. I think the thing I have  
14 mainly learned in 3 years there is I don't think you'll  
15 ever hear me using the phrase "the Chinese" -- the Chinese  
16 say, the Chinese do. It is such a internally chaotic,  
17 varied, individualistic.

18           They are individual officials who are saying the  
19 things you're saying, the people who are against them.  
20 And just to round out what I'm saying here, it is true  
21 that -- very true that exports have collapsed in the last  
22 6 or 8 months. In most of those months imports fell

1 further. So, of course, the Chinese trade surplus has  
2 been rising during this collapse of world demand.

3           There's a economist at Beijing University,  
4 Michael Pettis, who I've profiled in our magazine who is -  
5 - who has as you did, very clearly analogized the Chinese  
6 situation and that of the U.S. during the Great Depression  
7 where the country that had most of the trade surplus in  
8 the world has most of the contraction when it goes down.  
9 So it certainly is true their having to pump up the  
10 domestic demand to deal with this.

11           MR. FERGUSON: Sir, can I interrupt you?

12           MR. FALLOWS: Yeah, yeah.

13           MR. FERGUSON: The United States was far less  
14 reliant on trade in the 1920s and early 1930s -- far less.

15           MR. FALLOWS: As a percentage of its GDP, that  
16 certainly true. That's certainly true. And that's why  
17 the employment effect on China is greater than it was on  
18 the U.S. But my observation of the places where these  
19 interactions are happening now, and the companies that are  
20 doing it is that none of them feel as if they're not going  
21 to be doing business a year from now, 5 years from now.

22           It feels as if it's a terrible year or 2, but

1 that this is -- most of them assume this is going to be an  
2 ongoing relationship. On the exposure to the U.S. and  
3 whether this is a widespread sense of vulnerability,  
4 again, I think the general view within the Chinese sort of  
5 financial community is that these were statements for  
6 mainly domestic consumption, you know, by the Chinese  
7 central bank leader and others -- and by Wen Jiabao as  
8 opposed to saying we really do want the RMB to be the  
9 international currency. You know, we'll see as things  
10 unfold, but that's my observation.

11 MR. STOSSEL: Is there a way to unwind? I mean  
12 the -- no matter how you look at it, there is a kind of  
13 codependent relationship at this point between the United  
14 States and the -- and even if we're sort of decoupling  
15 Chimerica in some degree, there's still a codependent  
16 relationship. Is there a way to unwind that that's not  
17 catastrophic to both countries and to the global economy?

18 MR. FERGUSON: Well, it's unwinding itself in  
19 the midst of a global economic catastrophe that is  
20 affecting all those economies that are principally reliant  
21 on exports -- not only China, but also other Asian  
22 economies. And the other Asian economies are, in fact,

1 suffering significantly more. I mean Japan's economy is  
2 going to contract by close to 7 percent this year. China  
3 is likely to expand by more than 7 percent.

4           And so this tale of divergence within Asia is an  
5 extremely important one. Remember, the decoupling story  
6 is turning out to be far more true than I think even Jim  
7 O'Neill or Goldman Sachs expected. China's economy looks  
8 like being one of the very few in the world that will  
9 achieve positive growth this year. And it's going to be a  
10 pretty impressive story if, as the OECD now says, it's 7.7  
11 or even 8 percent.

12           So we're living through an extraordinary global  
13 economic catastrophe, something I compared this morning  
14 with the Great Depression of the sort we saw in the early  
15 '30s, but China is, in effect, stepping aside from it. So  
16 from my point of view, Chimerica is unraveling very  
17 rapidly. And the Chinese are acting in ways that are  
18 going to provoke the United States and other trading  
19 partners more than they may realize.

20           I mean Jim says, oh, these statements are for  
21 domestic consumption -- but try telling that to the  
22 international bond markets. You know, the primacy of

1 domestic politics is an old idea in historiography. But  
2 one of the lessons we learned from the history of the late  
3 19th and early 20th century is that when rivals, strategic  
4 rivals, trading partners engage in rhetoric for domestic  
5 consumption, they may end up unintentionally promoting  
6 conflict in the international sphere.

7           For China to continue to run a trade surplus in  
8 the midst of a depression like this is not particularly  
9 advantageous to anybody else. Remember, America's exports  
10 have been contracting dramatically too. And the Chinese  
11 continue to intervene to prevent their currency from  
12 appreciating, and they will continue to do that.

13           I don't know if you're aware of this, ladies and  
14 gentlemen, but it's worth bearing in mind that the U.S. is  
15 currently initiating proceedings against China at the WTO  
16 for violations of its commitments to free trade. So the  
17 relationship is much more on the rocks than I think you  
18 are --

19           MR. FALLOWS: Sure. And let me take up -- take  
20 a point of agreement as a starting point, and then explain  
21 why I'm in this unexpected position of being the  
22 relatively more optimistic member of the panel.

1                   (Laughter)

2                   MR. FERGUSON: It's always easy with me.

3                   MR. FALLOWS: Yes. That -- it certainly is  
4 true. I think the most dangerous thing that's happening  
5 in U.S.-Chinese relations right now are the steps the  
6 Chinese government has taken in the last 5 or 6 weeks,  
7 essentially export subsidy steps across the board.  
8 There's been -- buy-Chinese provisions have been written  
9 into the stimulus bill, there have been -- where export --  
10 tax rebates which were announced about 2 weeks ago.

11                   These were not things that Wen Jiabao said in  
12 speeches. They were things that actually were put out in  
13 the Chinese language circulars. And those are very  
14 threatening. Because if China is trying to increase its  
15 trade surplus when the rest of the world is having a huge  
16 contraction, I agree that that's a big problem.

17                   On whether -- the optimism -- why I -- something  
18 that impressed me both in its own right and based on  
19 having first seen China in the mid-'80s when I went there  
20 a couple of times, and then comparing it again with other  
21 parts of East Asia is the richness and virtuosity of the  
22 strands connecting China and the U.S.

1           For example, if you exempt the political  
2 leadership of China, which I analogize to the Republican  
3 caucus in the House, these are people who never been  
4 outside the country, they have their own sort of set of  
5 reality and all the rest --

6           (Laughter)

7           MR. FALLOWS: -- that the financial leadership,  
8 the business leadership, the university leadership, these  
9 people all were trained at MIT, they were trained at  
10 Oxford, you know, they are very well-versed in the world.  
11 That's a problem for China, that divergence.

12           But the business connections, the university  
13 connections -- a young woman who in Beijing had been doing  
14 translating for me in the last couple of months and who  
15 was under house arrest for a week during the Tiananmen  
16 anniversaries has just gotten a full scholarship to  
17 Harvard for graduate school. You know, she'll go there  
18 this fall, and there are thousands of thousands of these  
19 people.

20           So I think the web of connections between China  
21 and the U.S. -- it's comparable only to the British-U.S.  
22 connection during that time of rise of power. So despite

1 the obvious differences of China, it's a thick web, I  
2 think.

3 MR. STOSSEL: You've both written about -- from  
4 slightly different perspectives -- about how these kind of  
5 stability and authority of the Chinese regime is dependant  
6 on that country continuing to sustain a very high level of  
7 economic growth, whether it's 8 percent or 10 percent and  
8 so -- higher than what most of the rest of the world at  
9 this point is accustomed to. First of all, you can  
10 disagree about what level of growth --

11 MR. FALLOWS: One second there. It's been --  
12 the projection this year by the Central Committee was 8  
13 percent. I'm betting on 8 percent.

14 MR. STOSSEL: So how --

15 (Laughter)

16 MR. STOSSEL: -- how much risk is there in terms  
17 of the -- you know, where you end up with a situation  
18 where the legitimacy of the regime gets called into  
19 question if they are not able to sustain that 8 to 10  
20 percent level of growth, and what (inaudible) now?

21 MR. FERGUSON: Well, legitimacy is an extremely  
22 important thing to understand, because the legitimacy of

1 this regime is not based exclusively on generating a  
2 stated number of real GDP growth.

3           One of the things that most impressed me when I  
4 was in China last year -- and I was there quite a bit  
5 filming the documentary series the *Ascent of Money* -- was  
6 the extent to which nationalism is now a crucial source of  
7 legitimacy for the system, and not entirely one that the  
8 regime intended to grow as it has.

9           A couple of years ago, I became interested in  
10 the impact of the Internet on China. And I got some of my  
11 Chinese students at Harvard -- which you're right, Jim,  
12 are numerous -- to help me investigate this. I had in my  
13 mind a hypothesis which turned out to be completely wrong.

14           And the hypothesis was that as the Internet  
15 spread through China -- and it's not reached the point  
16 that there are more Internet users there than in the  
17 United States -- it would be like the printing press in  
18 Germany in the early 16th century. It would bring about a  
19 kind of political reformation.

20           It would transform the way in which people  
21 related to one another, because for the first time there  
22 would be free horizontal communication. It wouldn't all

1 be top-down -- completely wrong.

2           It turns out that what the Internet really  
3 facilitates in China is nationalism, and young Chinese  
4 particulate universities, use the Internet with tremendous  
5 creativity to transmit ideas about national identity,  
6 which I think in many ways it is quite unnerving. And I  
7 encountered this in three forums last year.

8           It manifested itself first against the western  
9 media for the way that they handled the Tibet crisis,  
10 extraordinary videos were doing the rounds in the  
11 Internet, not official, produced by, I think, young  
12 people. Then, it manifested itself again after the  
13 earthquake, and I was in China at that time and witnessed  
14 that extraordinary coming together that occurred in the  
15 wake of the great earthquake.

16           And of course, then it happened officially at  
17 the time of the Olympics. So the legitimacy of this  
18 regime is not entirely dependent on economic growth, but  
19 the more economic problems they have, the more it seems to  
20 me that they will rely on nationalism. Now, I mention  
21 this partly because I am a historian, I think  
22 historically. And Jim just drew a historical analogy when

1 he said that this was a lot like the relationship between  
2 China and America.

3 MR. FALLOWS: This had that aspect of the web,  
4 this was like a --

5 MR. FERGUSON: Right. So the cultural web was a  
6 lot like the relationship --

7 MR. FALLOWS: Yeah.

8 MR. FERGUSON: -- between the United States and  
9 Britain, say, a 100 years ago, or 50 years ago. Actually  
10 you know what it really reminds me of; it really reminds  
11 me of the relationship between Britain and Germany a 100  
12 years ago, deeply intertwined economically, deeply  
13 intertwined culturally, but for reasons not wholly under  
14 the control of the leaders in either country, on a  
15 collision course.

16 And that seems to me a much better and more  
17 troubling historical parallel, because so much about China  
18 today reminds me of the chaos of Germany. Rapid economic  
19 growth, self confidence about that growth, a sense that  
20 the bad years are behind you and the future lies before  
21 you, and then increasingly a rather shrill nationalism,  
22 that's the thing that worries me.

1           MR. FALLOWS: Here happily perhaps for the sake  
2 of the audience, we come to a point of actual  
3 disagreement. So I would -- which I'll build up to  
4 starting with a little bit of concord.

5           MR. FERGUSON: All right.

6           MR. FALLOWS: I introduce in the back of the  
7 room, my wife Deb who actually did the surveys of Internet  
8 use in China for the Pew Internet Project. What's  
9 interesting about the survey of how many Internet -- and  
10 you know, very much as you say that has been a tool for  
11 increasing governmental control. Most people in China say  
12 they welcome governmental control of the Internet.

13           The survey of the number of Internet users is  
14 usually kind of people who have ever used the Internet in  
15 China, as opposed to those who've used it, you know,  
16 everyday or whatever in the U.S. and has -- it sort of  
17 less permeated there. The nationalism, I agree with you  
18 that this has been an increasing, although episodic  
19 phenomenon. It shows up to my mind in several ways. One  
20 is the chronic unbelievable and higher than 20 years ago  
21 anti-Japanesism. Every single night if you watch Chinese  
22 CCTV, you see Chapter four million of the horrors of the

1 Japanese. And it is -- that is really striking.

2 (Laughter)

3 MR. FALLOWS: There is the anti-U.S. Western  
4 Press, there is an anti-CNN.com that is a very influential  
5 website; mainly we have the Tibetan riots and the sense of  
6 victimization. I am struck by how decorous the system  
7 usually is about applying this to the U.S. in particular.  
8 You don't see that many -- in the Chinese military museum,  
9 in Beijing, there is the part about where the Chinese were  
10 actually fighting the Americans in the Korean War and  
11 Vietnam is way up on the third floor. And it is -- parts  
12 of other Japanese or -- and the opium wars are more  
13 prominent, so nationalism is there. I think the  
14 government is -- uses it as a default tool as many do.

15 On your main point about the comparison with  
16 Germany, when I was in Japan, I had those thoughts about  
17 Japan. There was a sense of a nation spoiling for  
18 redemption as one can understand, having modernized,  
19 having come up against the western world. I practically  
20 never get that feeling in China.

21 I am struck that for as huge a historic,  
22 economic, cultural, geostrategic, et cetera, shift, as is

1 undoubtedly going on in China, how few causes of building  
2 collision there are. How rarely you come across people  
3 who are spoiling to get even with the U.S. or the western  
4 world as one as I did encounter in Japan 20 years ago, and  
5 I've encountered in Korea, you know. And so my experience  
6 being there is that I am much, much less worried on this  
7 sort of German English parallel.

8           MR. FERGUSON: Can I just come back at this,  
9 because it is really important to understand how these  
10 things work. There isn't a great tradition of anti-  
11 Americanism in fact in modern Chinese political culture,  
12 because the period of conflict between the United States  
13 and China was very short.

14           It was really only from the Korean War until the  
15 opening to China that Henry Kissinger and Richard Nixon  
16 initiated, so barely 20 years. For most of the period  
17 prior to that, the United States in contradistinction to  
18 the United Kingdom had been pro-Chinese and anti-Japanese,  
19 and the Chinese haven't forgotten this. In the pecking  
20 order of enemies of China, the Japanese are in pole  
21 position and we are next.

22           MR. FALLOWS: Yes, that's true.

1           MR. FERGUSON: The opium wars are very much  
2 nixed. In fact, now that Iran has adopted us as the -- as  
3 Great Satan 2.0, I think, it is almost like being a Bond  
4 villain all the time in every political culture, being  
5 British is becoming an increasingly uncomfortable thing.  
6 I really should get my green card and my citizenship as  
7 soon as I can.

8           But I think the more that China asserts itself  
9 globally against its perceived historic rivals, that is to  
10 say the more it asserts itself against Japan, and the more  
11 it asserts itself against the memory of European empire,  
12 and particularly British Empire, the more American allies  
13 come under pressure. I mean, it is no coincidence that  
14 the Australians have radically reconfigured their defense  
15 strategy for the future, because they know that they can  
16 no longer assume American hegemony in Asia-Pacific; that  
17 the future clearly is going to belong to China.

18           Now, the United States may feel relaxed about  
19 that, but America's allies don't feel relaxed about it,  
20 beginning above all, with Japan. And that is, it seems to  
21 me, what leads to a kind of unintended collision. I think  
22 Americans are far too complacent about where this is

1 going.

2           Or take another issue; China's insatiable  
3 appetite for commodities. You know, the one thing that is  
4 not deflating in the world right now is the price of  
5 commodities. And that is primarily because one  
6 consequence of the Chinese stimulus package is to bid up  
7 the price of oil, copper, and all the other things that  
8 they need, that they are stockpiling, indeed, for their  
9 great infrastructure program.

10           Now, where does that lead? It leads to an  
11 increasing Chinese interest, not only in sub-Saharan  
12 Africa, but increasingly in Latin America, and indeed, for  
13 that matter in Australasia. Ultimately, this historically  
14 is what geostrategic rivalry comes from. It doesn't come  
15 necessarily from the will, the intention of political  
16 leaders. It happens because there are fundamental  
17 conflicts of interest about things like natural resources.

18           MR. FALLOWS: Agreed, and yet, let's talk about  
19 this Australian report. It is something that I actually  
20 have spent some time on. I think that there was the  
21 recent white paper by the Australian defense ministry that  
22 seems to me, I think, we will be seeing in retrospect as

1 fundamentally alarmist and ill-informed. It was part of  
2 the tension within the Australian government about how  
3 seriously they should take China's military ambition to  
4 how much they could rely on the U.S.

5 I think, that is an outlier, I mean, it was --  
6 it tells more about Australia than it does about anything  
7 else. And of course that affects on alliances, but that  
8 would be point one. Point two about whether there will be  
9 spillover tension with the U.S. based on chapter of 10  
10 million of the anti-Japanese saga or the hundred years of  
11 humiliation, as you heard about no doubt from their  
12 British tensions.

13 Again, yes, but the U.S. is often canny enough  
14 to use this to its advantage in divide and conquer ways,  
15 as opposed to necessarily saying, oh, yes, you criticize  
16 my brothers, the British, you are criticizing me.  
17 Sometimes the U.S. does that and sometimes not to say, oh,  
18 yeah, yeah, we fought against them too. On the larger  
19 point --

20 (Laughter)

21 MR. FERGUSON: I'm glad you admit your chronic  
22 disloyalty to your allies.

1           (Laughter)

2           MR. FALLOWS: On the -- my people, perhaps like  
3 yours are Scottish, so that this gives me you know,  
4 various mixed views of the British Isles. The -- on the  
5 largest point of historical rivalries, of course, there  
6 are enormous tensions for the world to be managed by this  
7 huge rise of the largest population of the world and what  
8 is going to be -- certainly be the biggest economy of the  
9 world.

10           I mean it only has to be one-fourth as rich as  
11 the U.S. per capita to become the biggest economy. That's  
12 going to happen. That will happen sooner or later. And  
13 to have a place that historically has been the power of  
14 that region, this has to be a matter of world consequence.  
15 The point I am making is, number one, compared with most  
16 other such shifts, it is astonishing how little rather  
17 than how much disruption this need caused.

18           Number two, history as you know far better I,  
19 and from an academic perspective is not a matter of just  
20 machinery and automata, even though there are forces, but  
21 there are decisions good and bad. And I think, the  
22 Chinese leadership at the moment, most of the time,

1 excluding its trade subsidies is deciding for a non-  
2 confrontational approach. And I think the U.S. can find  
3 ways on climate matters, on commodity matters, and  
4 economic matters to work with rather than against.

5 MR. STOSSEL: There are two things that I want  
6 to -- that you both, each of you mentioned that I want to  
7 come to shortly, one is the Iran analogy, and the other is  
8 the sort of the rise of China over the long term in a kind  
9 of great power kind of context. But to press down on  
10 another area of disagreement, if I may, for a moment --

11 MR. FALLOWS: Oh, no.

12 MR. STOSSEL: I think, and correct me if I am  
13 wrong, you've both spent time in the city of Chongqing, if  
14 I am pronouncing that right.

15 MR. FALLOWS: Chongqing.

16 MR. FERGUSON: Chongqing.

17 MR. STOSSEL: Chongqing --

18 MR. FALLOWS: Formerly Chungking.

19 MR. STOSSEL: -- which is, I think the fastest  
20 growing city of the world at this moment.

21 MR. FALLOWS: I think, maybe at one time; there  
22 is 20 others with that claim now.

1           MR. STOSSEL: Anyway, it is growing very  
2 quickly.

3           MR. FALLOWS: It is growing like hell.

4           MR. STOSSEL: Now, you Niall, I think spent some  
5 time there, not too long ago and came away and I think  
6 this is one of the factors in your sort of deciding that  
7 Chimerica was a chimera, because went there and saw what  
8 was going on, and saw -- actually this looks like  
9 Stalinist Russia in the 1930. This is a state-planned  
10 economy, and you know, evidence that maybe in the -- and  
11 even in the medium term that China may not be as dependent  
12 on the United States, and this kind of codependent  
13 relationship as maybe it had cracked up to be originally.

14           But Jim, I know you've also spent time there  
15 originally, and drew something of a different conclusion.  
16 So let me start with you, Niall. What lessons did you  
17 draw from there, and then what lessons did you draw from  
18 there? I think there'll be instructive differences.

19           MR. FERGUSON: Well, I went to Chongqing because  
20 I wanted to get away from the familiar landscape of the  
21 eastern coastal areas and particularly from Shanghai and  
22 Beijing and see inland China. And that city attracted me,

1 because it was clearly a focal point for the regime's  
2 development strategy even before the crisis began.

3           And in many ways it exemplifies those elements  
4 of the communist system which are still -- continues with  
5 the traditions of Soviet economic planning. The real  
6 driving force, let's not forget, for China's growth right  
7 now is state-led infrastructure investment, and Chongqing  
8 exemplifies this. Of course, there is a market economy  
9 which is, in many ways, parasitic on that.

10           But the driving force is an extraordinary number  
11 of bridges across the Yangtze, not to mention the nearby  
12 Three Gorges Dam, which is the reason Chongqing is so  
13 large. All the people who used to live there were told to  
14 go and live in Chongqing in the city proper. And it's a  
15 breathtaking place in more ways than one, you can hardly  
16 breathe there.

17           (Laughter)

18           MR. FERGUSON: Asthmatics beware. Nor do you  
19 see much of the sun. It's almost the exact opposite of  
20 Aspen in that respect. But I came away from Chongqing  
21 realizing that China does not rely any longer -- does not  
22 need to rely any longer on exports to the United States to

1 propel its growth. And, of course, it's not -- I mean if  
2 China grows at 7 or 8 percent this year, virtually none of  
3 that growth will be due to exports.

4           It will be entirely due to domestic government  
5 expenditure and investment and a growth of domestic  
6 consumption. What do they build in Chongqing? They build  
7 motorbikes and cars for China in increasing quantities.  
8 The biggest motorcycle factory, I think, in the world is  
9 there. And they are not building motorcycles for export.

10           So that, it seems to me, is a very different  
11 kind of China from the one you're used to hearing about.  
12 Most of us, I think, are rather stuck in a 10-years-old  
13 paradigm in which the enterprise zones, the special  
14 economic zones in the periphery attract foreign direct  
15 investment and Wal-Mart, et cetera, outsources all  
16 offshore production to these regions.

17           That model is finished. It's gone. They don't  
18 need FDI anymore. With a huge savings rate like theirs,  
19 they can entirely finance their own investment without  
20 foreign capital. And they increasingly don't need and  
21 should not rely on foreign demand for their exports.  
22 That's why, I think, Chimerica is over. They will have

1 growth this year, but it will be domestically driven.

2 MR. STOSSEL: They have enough domestic market  
3 in order to absorb all this stuff?

4 MR. FERGUSON: Well, they don't have enough  
5 private sector consumption. It's very hard to get a  
6 society that is so used to saving such a large proportion  
7 of household income to suddenly go out and become American  
8 in the shopping malls. But while that gradual transition  
9 happens as -- and it's happening.

10 I mean the ordinary Chinese savings rate is  
11 going down, the household savings rate is going down. And  
12 the more the Chinese state provides some basic health care  
13 or some basic educational provision, the more Chinese will  
14 consume. But this will take time. Short term, the state  
15 substitutes. And it's substituting to pretty dramatic  
16 effect right now.

17 MR. STOSSEL: What it used to --

18 MR. FALLOWS: I'll agree on a point of -- we'll  
19 find a point of concord. Again, I agree very much that  
20 the interior China is the place to go. If I were to  
21 change Chinese travel plans I'd have people not spend --  
22 go ever to Shanghai or Beijing or even Yangzhou

1 (phonetic). And instead go to Chongqing or to Kunming or  
2 to Chengdu or Xian or these other places.

3 I will draw my example less from Chongqing than  
4 from other cities which I have found, you know, way more  
5 interesting recently. One is Chengdu in Sichuan province,  
6 which has been in the news as the earthquake center. The  
7 other is Xian, which is known for the -- for its  
8 terracotta warriors.

9 What's interesting to me about Xian or -- was --  
10 I guess 2-1/2 weeks ago for several days is -- there is  
11 about 15 miles from downtown Xian, from the old walled  
12 city with its Moslem merchants and everything, there is  
13 the so-called Chinese aviation industrial base where  
14 250,000 employees are working in the aviation industry.

15 You know, 250,000 -- I don't think that many  
16 exist in the rest of the world, but you have an aircraft  
17 industry outside Xian. What's interesting is that this  
18 was all a previously state-owned enterprise that's all  
19 being privatized. While it is true, number one, that the  
20 things China does well are construction and infrastructure  
21 -- you know, manufacturing, construction, infrastructure -  
22 - that's what China does.

1           And number two, that state subsidy of those  
2 things right now is what's trying to keep the, you know,  
3 the effects of the recession and unemployment at bay. It  
4 is -- that is the stimulus and the not the whole of the  
5 story. I mean you see in this Xian aviation industrial  
6 zone Airbus has a new investment there, and so does Boeing  
7 and so does Honeywell and so do all these international  
8 companies.

9           I would say that to the extent anything in  
10 Chongqing had the evocation of Stalinism to you, I would  
11 try to rid your mind of that in these two ways. I think  
12 in political control, nothing about life in China is like  
13 what we associate with the old Soviet Union. There is  
14 tight control in certain areas, the rest of the way it's  
15 just, you know, free and open and people do what they  
16 want.

17           And economically there is state control of, you  
18 know, these big infrastructure projects. And the rest is  
19 this big beehive of people doing business. So I don't see  
20 signs of any kind of diminishment of the private  
21 enterprise role.

22           MR. FERGUSON: You know, I called it a semi-

1 planned economy in the piece I think you have in mind from  
2 the *Financial Times*. But just to remind people that it's  
3 a semi-planned economy; it's not 100 percent market  
4 economy, nothing like it.

5 SPEAKER: Sure.

6 MR. FERGUSON: And if the planned element were  
7 to suddenly stop, then the Chinese economy would be in a  
8 great depression like everybody else.

9 MR. FALLOWS: I would argue it's not so much the  
10 planning, but the public stimulus money of building over  
11 those roads. I mean it just -- even in the last 2 or 3  
12 months it's been obvious, sleuthing at any highway there  
13 is a thousand peasants literally shoveling, you know,  
14 gravel on to or off of the highway.

15 MR. STOSSEL: Well, I want to make sure we leave  
16 enough time for audience questions. But just quickly two  
17 additional questions that are very quick, I think, for  
18 both of you.

19 And one is very narrow -- and you have had this  
20 sort of odd confluence of timing where within the space of  
21 a month you've had the 20th anniversary of Tiananmen  
22 Square in China for which Jim was there and actually had

1 an encounter with the local Beijing constabulary in -- on  
2 Tiananmen Square and then the revolutionary in Iran.

3           So the question is very simple, and it's two  
4 parts, though. What can Iran learn from China's  
5 experience with Tiananmen Square? But more important,  
6 what can the United States learn from that experience?  
7 Jim, why don't you go first?

8           MR. FALLOWS: On the Iranian front, I barely  
9 know anything about Iran. I was with -- there 30 years  
10 ago with Jimmy Carter when he made an ill-starred toast to  
11 the Shah of Iran calling him an Island of stability in a  
12 sea of turmoil. I, unfortunately, was the person who  
13 wrote that toast --

14           (Laughter)

15           MR. FALLOWS: -- but I was just following  
16 instructions. I was just following instructions. I was  
17 just doing my job. But I would think the -- I don't know  
18 whether the average person in Iran feels as if his or her  
19 life has gotten better over the last 20 or 30 years under  
20 the current regime. I know that most people in China feel  
21 that about the Chinese regime.

22           So while there are tremendous sources of tension

1 and there are all these demonstrations around the country  
2 -- usually they are against the local landlord, the local  
3 mayor, the local governor, the local crook with the idea  
4 that if Hu Jintao knew, he would come in and save them.

5 MR. FERGUSON: Well, I too am eager to open this  
6 up to discussion. But I do think it's good that you've  
7 mentioned what's happening in Iran -- that is clearly the  
8 world historical event of this year. And to find it  
9 suddenly overshadowed by the death of Michael Jackson is  
10 one of the most depressing things that I have ever  
11 experienced.

12 (Laughter)

13 (Applause)

14 MR. FERGUSON: Unfortunately, I fear what is  
15 happening in Tehran is closer to Tiananmen Square than it  
16 is to Berlin or Leipzig or Prague in 1989. I actually  
17 have just been in those cities, and it was rather uncanny  
18 to follow the Iranian events.

19 I must say I followed them to a degree that  
20 surprised me, primarily through an *Atlantic*-sponsored  
21 website, my friend Andrew Sullivan's wonderful website,  
22 which was a better -- it seemed to me a better guide to

1 what was going on in Iran in the way that Andrew used e-  
2 mails and tweeter post from Tehran than anything I could  
3 see in the mainstream media.

4           And all kudos to him for that. But I'm afraid  
5 this isn't a time, it seems to me, when an authoritarian  
6 regime folds. Authoritarian regimes of the sort that  
7 folded in '89 were pretty old. It was kind of  
8 gerontocratic bunch of leaders who lost the will to rule  
9 in 1989 in East Germany and indeed in Czechoslovakia.

10           The Iranian revolution is still a relatively  
11 young revolution by historical standards. And Mr.  
12 Ahmadinejad and his fellow revolutionary guard veterans  
13 are not men about to hand over power without a fight. To  
14 me, the most significant thing, right now, is that both  
15 the Chinese authorities and the Iranian authorities are  
16 seeking to control and succeeding in large measure to  
17 control the Internet.

18           After all, it's only a few days ago that Google  
19 was effectively closed down by the Chinese government.  
20 And it's a reminder to us here in this idyllic setting,  
21 where we entirely take for granted our freedoms that out  
22 there in the most populous country in the world and

1 perhaps in the most strategically important of Islamic  
2 countries, in China and in Iran, there is still nothing  
3 remotely resembling the freedom to which we've grown  
4 accustomed. But perhaps we should open it up to the --

5 MR. STOSSEL: Last question -- the proverbial  
6 lightning round question. Actually, let me direct it to  
7 you first now, because you have written about the rise and  
8 decline of empires. You know, Goldman Sachs, among  
9 others, periodically put out these reports about  
10 projecting relative size of GDP over the years. And not  
11 many years ago, they were projecting that it would be in  
12 2040 that China's GDP would overtake the United States.

13 As now, I think, in very recent reports they've  
14 actually revised that forward to 2027. That's purely  
15 economic clout. But projecting ahead to, say, 2050 if you  
16 were to look at the, you know, array of global powers at  
17 that point, looking at, not just China and America, but  
18 also India, the EU, Russia, and who knows, you know,  
19 Venezuela and Iran, where do you see the relative standing  
20 of the great powers in 2050? And then you answer and then  
21 Jim answer and then let's open up to --

22 MR. FERGUSON: Well, during the recent meetings

1 of the G20, I became a little frustrated at this talking  
2 shop and said that G2 was what really counted, meaning the  
3 United States and China. By 2050 I think that will be  
4 even more apparent. It's possible that India could  
5 achieve the kind of growth that China has achieved, and  
6 become the third largest economy.

7           But it seems to me there are all kinds of  
8 pitfalls that lie ahead for India. So we can look ahead  
9 insofar as we can say anything about the future to a world  
10 in which there will be two great powers, two superpowers.  
11 And my sense is -- and this comes back to the beginning of  
12 our discussion -- that these two powers, China and the  
13 United States, will no longer be in a happy marriage to  
14 one another.

15           However well-intentioned the leaders of those  
16 countries are today, the historical balance of probability  
17 has to be that they will be in some kind of strategic  
18 rivalry. Not necessarily your Mexican standoff, but  
19 certainly something very different from Chimerica.

20           MR. FALLOWS: Briefly I agree. I think that  
21 China and the U.S. will be the two main powers. I like  
22 the U.S.' staying power on having several assets in other

1 countries, including China, find hard to match, paramount  
2 among them being a magnet for world talent. If, for  
3 example, academics from the United Kingdom can come to the  
4 United States and do their work and the engineers from  
5 China and all the rest, it's -- it will be hard for China  
6 to match that in the scale with the U.S. so.

7           And the relationship between China and the U.S.  
8 has never been that tranquil. It probably will grow more  
9 tense as China's relative size grows, but in world  
10 historical sweep, it's remarkable that it's as amicable as  
11 it might be.

12           MR. STOSSEL: Okay. Well, I think we have a  
13 full 20 minutes for questions. So why don't we start  
14 right here in the middle?

15           SPEAKER: (Off mike.)

16           MR. FALLOWS: Actually, it's --

17           SPEAKER: (Off mike.)

18           MR. FALLOWS: Actually, it's the --

19           MR. STOSSEL: Sorry. There is microphones on  
20 either side here. So actually if you folks could go line  
21 up. Sorry, my apologies. That was my fault. Let me  
22 start over here on the right.

1           MR. CARPEN: Steven Carpen (phonetic) from  
2 Houston. This question arises from Professor Ferguson's  
3 chilling mating of the rise of nationalism and the  
4 potential of -- or foreseeing a collision course between  
5 the United States and China. We've just returned from the  
6 region where there was a lot of talk about the enormous  
7 growth of the Chinese Navy, particularly the submarine  
8 Navy.

9           I wonder if either of you would speculate on  
10 what you think China's strategic intent is in developing  
11 that kind of a Navy?

12           MR. FERGUSON: Well, this is where my German  
13 parallel, it seems to me, is most compelling. From 1897  
14 onwards, the Kaiser's Germany embarked on a program of  
15 naval construction, the intention of which was to reduce  
16 British maritime supremacy and ultimately, to rival it.  
17 And it seems to me that that is precisely the intention of  
18 China's naval policy.

19           I agree with something that Jim Fallows said  
20 earlier. It's very dangerous to talk about monolithic  
21 entities -- China, America. And I'm extremely cautious in  
22 all my work to avoid that mistake. The Chinese military

1 clearly thinks in a different way from the trained  
2 engineers who are responsible for the Chinese economy.

3           And the way that they think is far more  
4 historically traditional. They think in terms of the rise  
5 and fall of great powers. They've read their Paul  
6 Kennedy, and they indeed have watched that wonderful  
7 recent television series that the Chinese produced on the  
8 lessons of history from the rise and fall of great powers.

9           And lesson number one is you are not a great  
10 power if you do not have a naval power. And one of the  
11 lessons the Chinese have taken from their own history is  
12 that from the moment that they abandoned the great Admiral  
13 Zheng He's naval explorations, they receded in terms of  
14 the global pecking order. So they see naval power as a  
15 sine qua non of great past ages.

16           And that is what they're aiming to achieve. If  
17 that doesn't lead ultimately to some kind of strategic  
18 friction, then I'm not a historian who wants to continue  
19 in the profession. That's one of the obvious lessons of  
20 the history of empires, that when these sorts of naval  
21 programs happen, sooner or later there is friction.

22           We've already had friction, actually. There was

1 a recent incident between the U.S. and Chinese navies,  
2 which I thought was an interesting straw in the wind.

3 MR. STOSSEL: Jim.

4 MR. FALLOWS: Let me stipulate first that  
5 anything can happen. Ten years from now, China could  
6 entirely fall apart because of ethnic tensions or because  
7 of environmental catastrophes, probably the greater  
8 likelihood being that. It's possible.

9 And there are certain times when emotions flare  
10 up. It is little noticed in the U.S. how intense has been  
11 the anti-American feeling in China for the last 2 months  
12 over the dreaded swine flu threat, that America is not  
13 responsibly controlling swine flu. I saw in the paper  
14 this morning there are now 759 cases of swine flu in  
15 China, zero fatalities.

16 But somehow, this doesn't diminish the threat.  
17 So anything can happen, including possible military  
18 rivalries. Number two, I think the German parallel quite  
19 distinctly does not apply here. Chinese naval doctrine is  
20 to be able to win a battle for Taiwan. It is not an end  
21 secondarily and way down the list to be able to deal with  
22 their oil and commodity supplies, if necessary.

1           Undermining American naval supremacy generally  
2 is nothing like a goal for them in the way it was for  
3 Germany and England long ago.

4           MR. STOSSEL: Oil commodity supplies from where?  
5 From Africa --

6           MR. FALLOWS: From the Middle East or Africa.  
7 So again, I'm speaking as of 2009. It could be different  
8 5 years now, from 10 years from now. But it is impressive  
9 how modest their ambitions are, extremely bellicose about  
10 Taiwan, where they want to be able to win a war and feel  
11 that they can.

12           On the Chinese military, more generally --  
13 something I plan to write about eventually -- it is  
14 certainly, as you say, a much more monolithic and hard-  
15 line and non-internationalized force than, say, the  
16 financial leadership. Number one, it's impressive that  
17 the U.S. military is making as many efforts as it has for  
18 transparency unlike some Chinese military.

19           Number two -- how can I put this politely? This  
20 is not a fearsome fighting force in most of its  
21 manifestations. When you see it, it's like the old  
22 Sergeant Bilko or Catch-22, you know, scenes. It's major

1 -- the U.S. military is good, because it's always fighting  
2 somebody. And it's -- when it's not fighting, it's  
3 training.

4           The last real combat the Chinese had was against  
5 Vietnam when they lost half as many people in 3 weeks as  
6 the U.S. did in 10 years. And so it is a potential  
7 threat, but I think it needs to be kept in perspective --  
8 my view, except over Taiwan. Taiwan, I agree, is a very  
9 dangerous situation.

10           MR. STOSSEL: Let's go over to this side.

11           MR. MANOR: Yes. Edrik Manor (phonetic). Could  
12 -- Niall, could you speak to the policy of nation-building  
13 that China has in Africa and Kurdistan and other areas of  
14 the world, and the significant impact it might have on the  
15 United States and our policy?

16           MR. FERGUSON: Well, I'm not sure if it  
17 qualifies as nation-building. I think it's more  
18 infrastructure-building with a view to resource  
19 extraction. One of the fascinating consequences of this  
20 policy is that China is acquiring in a fit of absence of  
21 mind, something closely resembling a late 19th century  
22 empire.

1           Empires generally begin in this way. They don't  
2 begin because somebody sits down with a master plan for  
3 colonizing -- oh, I don't know, Sudan. They begin because  
4 somebody decides that it would be a good idea to secure  
5 oil exports from that economy. And in order to secure  
6 those, you try to improve the infrastructure, roads, port  
7 facilities.

8           China has been doing this all over Africa. In  
9 fact, it's quite hard to go to Sub-Saharan Africa and not  
10 encounter a Chinese-built road. But once you own those  
11 assets, once you've made that kind of commitment, then the  
12 next thing is, umm, is it quite -- insecure places? We  
13 need to get some security people on the ground just to  
14 make sure that the ports and the roads continue to  
15 function.

16           And that's the thin end of the wedge that  
17 gradually leads to an increased strategic presence.  
18 That's what's happening in Africa right now. It has  
19 benefits for Africa. Its investment is achieving more for  
20 Africa than all the aid that the West has sent to Africa  
21 since the II World Wars. My friend, Dambisa Moyo, I'm  
22 sure would point out. But it also repeats history in the

1 sense that it turns Africa into a supplier of commodities  
2 to an imperial power.

3 MR. MANOR: Thank you.

4 MR. STOSSEL: Over here on this side.

5 SPEAKER: Thank you guys both for a terrific  
6 panel. Similar question, and pushing back a little bit.  
7 China's relationships with Latin America, where I think  
8 that there -- it's not talked about that much in the  
9 immediate -- starting to gain a little bit more attention.  
10 It strikes me that there is some element which is  
11 undermining American power wanting to build some basis in  
12 this hemisphere. So I just want to hear your comments on  
13 that.

14 MR. FALLOWS: And to clarify, do you mean  
15 military basis or do you mean --

16 SPEAKER: I mean I understand there is some  
17 military --

18 MR. FALLOWS: I don't believe that's true.

19 SPEAKER: Oh.

20 MR. FALLOWS: I mean -- or at least it's news to  
21 me if it is so. You know, the Chinese military is usually  
22 very sort of circumspect. They went on some peacekeeping

1 anti-piracy mission which was big news, because it was the  
2 first time they'd done something like that. My brief  
3 answer is I basically agree with the argument that in  
4 Latin America, as in Africa, these are colonialist-style  
5 economic relationships.

6           And the question will be whether there is all of  
7 the other paraphernalia of colonialism (inaudible).

8           MR. FERGUSON: This is informal empire of the  
9 sort that you would have encountered 100 years ago in  
10 Latin America. Then it was the British who didn't control  
11 formally any territory, but did control -- increasingly  
12 did control the fiscal system of Brazil, of Argentina.  
13 The Chinese are moving in this direction.

14           I think the recent meeting with Lula was a very  
15 interesting one in which, for example, the Chinese and  
16 Brazilians talked about from now on factoring their own  
17 trade in their own currencies rather than in dollars. It  
18 goes right back to my earlier point, the more explicitly  
19 the Chinese talk this way, the more you know that they are  
20 changing the model.

21           And I think from a Latin American perspective,  
22 remember history has given Latin American countries a

1 justifiable prejudice against the United States, and the  
2 informal imperialism of 100 years of American involvement  
3 in Latin America. And that, of course, predisposes Latin  
4 Americans to be quite cheerful and positive about the  
5 prospect of China playing a role.

6           Anybody but the gringo is a reasonable basis for  
7 foreign policy in Latin America, especially if that  
8 anybody brings considerable investment to, say, the  
9 agriculture sector, which is what interests the Chinese  
10 most about Brazil.

11           MR. STOSSEL: Sure.

12           MR. FALLOWS: A 5-second point on economics.  
13 There is a build-in tension in China's economic ambitions.  
14 It can't both make the RMB a unit of international  
15 currency and control its value permanently. So that is  
16 going to be a tension to resolve.

17           MR. STOSSEL: Over here.

18           SPEAKER: You've alluded to authoritarian  
19 regimes in other countries. I'd be interested in what  
20 both of you think about the staying power of the  
21 authoritarian regime China. Is there a scenario that  
22 either of you can paint in which China is no longer the

1 authoritarian government we know today?

2 MR. FERGUSON: You know, all my Chinese students  
3 at Harvard -- in the college and at the business school  
4 would answer that question as follows. We understand the  
5 benefit of democracy, and China will gradually move  
6 towards democracy.

7 But it will be over a protracted period of time,  
8 because we are at a very much earlier stage of development  
9 than you are, and it will be a Chinese kind of democracy  
10 in which the representation will be within the party.  
11 That's what they say. And that answers your question.

12 (Laughter)

13 MR. FALLOWS: I will give a slightly different  
14 answer to that question if I could. I think there are  
15 scenarios for anything you can imagine about China. You  
16 can imagine another Tiananmen Square, and you can -- some  
17 huge crack down in there in which if there is ever a  
18 choice between domestic control or international goodwill,  
19 it's no contest for the regime.

20 International -- internal control matters more.  
21 You can imagine a gradual prod/spring type evolution over  
22 10 to 15 years. So there's scenarios for anything of what

1 is most likely. To me, democracy is not really the most  
2 important issue. Everybody says they are in favor of  
3 democracy in the long run. Wen Jiabao says that every  
4 year in his international press conference -- it's a  
5 matter of 50 years, is 100 years.

6           To me the question is always liberty and  
7 liberties. And there has been, in most cases, a steady  
8 spread of liberties within China with great exceptions and  
9 with backtracks. And there's been -- in the last year  
10 there've been a number of places where there've been  
11 crackdowns on some people who live under tyrannical  
12 situations.

13           I expect a gradual spread of liberties. And I  
14 think that's something the rest of the world has any  
15 interest in encouraging.

16           MR. STOSSEL: Back over there.

17           SPEAKER: Thank you. I read recently that China  
18 has shifted a significant amount of its holding in the  
19 U.S. treasuries from the longer end of the yield curve  
20 into very short-term -- into T-bills, in effect, putting  
21 them in a position of being more of a demand-based  
22 creditor as opposed to an investor in the United States.

1           And I'm wondering what your take is on that  
2 shift. I mean some people have speculated that possibly  
3 it's a precursor to move on Taiwan. And I'm just  
4 wondering if you've read the same thing or what your idea  
5 is about that change.

6           MR. FERGUSON: My former boss, Larry Summers,  
7 who now controls the entire world economy --

8           (Laughter)

9           MR. FERGUSON: -- which is a much easier job  
10 than being president of Harvard University, I should say.  
11 He and I used to discuss the possibility of the Suez  
12 crisis scenario. And in the Suez crisis scenario -- I  
13 think I introduced Larry to this idea -- I pointed out  
14 that in '56 when it was clear that the British-French is  
15 really operation in Suez -- in the canals -- did not have  
16 American approval, the phone rang in Her Majesty's  
17 Treasury.

18           And the then Chancellor of the Exchequer, Harold  
19 MacMillan, picked up the phone, "Hello?" And it was  
20 explained to him by the United States that support for  
21 sterling would cease forthwith if the United Kingdom did  
22 not withdraw troops from the Canal Zone.

1           And the argument that we kicked around a few  
2 years back at Harvard was whether in a crisis over Taiwan  
3 the phone would ring in the U.S. Treasury -- hello -- and  
4 it would be the Chinese on the phone saying that support  
5 for the dollar or for the U.S. tenure would cease until  
6 such a point at which the United States ceased its support  
7 for Taiwan.

8           Now, I think this Taiwan issue brings us back in  
9 some ways not just to the 1950s, but to my 1914 scenario.  
10 You can end up going to war over a funny little country  
11 that you'd kind of forgotten that you'd given a security  
12 guarantee to. It was Belgium in 1914; it could be Taiwan  
13 in our time.

14           MR. FALLOWS: The --

15           MR. FERGUSON: But my sense is right now that  
16 this is not really what lies behind Chinese decisions  
17 about the allocation of their reserves. What lies behind  
18 those decisions is -- are not to get caught out by a  
19 serious sell-off at the long end of the yield curve. They  
20 don't want to be left holding the 10 years if the thing  
21 suddenly zooms up above 4 percent on the yield curve.

22           And also, remember, most of the U.S. debt is

1 short term. I mean the average maturity is very much  
2 shorter than that for, say, European public debts. So  
3 they kind of can't help but own quite a lot of short-term  
4 debts since they have so much of the stuff anyway.

5 MR. STOSSEL: Is there a situation where -- a  
6 run on the U.S. debt and then, you know, you -- we've --  
7 as everyone knows, because of what's going on with the  
8 Obama administration, the fiscal stimulus and TARP and  
9 health care, that all of a sudden there could be a moment  
10 where there is such a --

11 MR. FALLOWS: Sure. But that's for -- general  
12 economic panic that affects everybody. It's not going to  
13 affect Taiwan.

14 MR. STOSSEL: But could you end up with a  
15 situation where the U.S. is -- replaces the international  
16 reserve currency all of a sudden?

17 MR. FERGUSON: Well, this is precisely the key,  
18 that the Chinese see this as the end goal. They want to  
19 get to that point, they hate the fact that --

20 MR. FALLOWS: Of replacing -- whether they're  
21 going to have the RMB as the international currency?

22 MR. FERGUSON: No, no, no, they -- oh no, no,

1 not at all. They don't want to replace. They want the  
2 dollar no longer to be in this position of dominance,  
3 because their exposure to it makes them nervous. And it  
4 gives the United States a wonderful advantage. I mean  
5 isn't it great? You can borrow a vast amount of money --  
6 13 percent of U.S. GDP in this year alone.

7           You can issue up to \$2 trillion of new debt and  
8 have people buy it and pay a much lower rate on that debt  
9 than on other people's comparable issues, because it's the  
10 international reserve currency. I mean the Chinese feel  
11 nervous. It goes back to something you said earlier,  
12 Jimmy. It goes back to the mistakes they made when they  
13 invested in Blackstone and when they invested in Morgan  
14 Stanley.

15           I remember somebody at the Sovereign Wealth Fund  
16 saying that they thought they were the hunter and Morgan  
17 Stanley was the rabbit, but it turned out to be the other  
18 way round. And now they look at their holdings of U.S.  
19 federal debt and they think themselves, this is a far  
20 bigger stake than we took in those Wall Street firms.

21           And it could cost us far more if the U.S. simply  
22 pursues a selfish policy of letting the dollar slide in

1 pursuit of recovery. That's really the heart of this  
2 divorce that I'm talking about.

3 MR. FALLOWS: Stipulating that I disagree about  
4 the divorce, the short answer to your question -- separate  
5 constantly in your mind the Taiwan question from the  
6 financial question. Financial questions are resolved on  
7 China's side on financial grounds including how much they  
8 seem exposed. Taiwan, I agree, is the 1914 potential.

9 But this is -- and it is greatly to the relief  
10 of the world that the government in Taiwan has changed,  
11 because the U.S. and China could go to war that neither of  
12 them intended, if Taiwan declared independence. So this  
13 is manifestly to the world's good that is -- that the  
14 Taiwanese government is not doing that now.

15 SPEAKER: Thank you.

16 MR. STOSSEL: Over there.

17 MR. CASMER: Hi, my name is Spenser Casmer  
18 (phonetic). Thank you for coming, first off. We both --  
19 both of you obviously agree that Chimerica exists and yes,  
20 it's broken. So I was wondering, to each of you, how you  
21 would correct that or patch up those wounds.

22 MR. FALLOWS: I will start on this one. I think

1 that there are the reactions, fortunately, from a  
2 historical perspective. I think, fortunately or  
3 unfortunately, the crucial variables are largely within  
4 U.S. capacity to affect. Because I think on one source of  
5 friction we've been talking about, which is sort of the  
6 profligacy of the U.S. economically, and whether it scares  
7 off the Chinese.

8           This is within America's power to do something  
9 about, at least theoretically. At least constitutionally  
10 the U.S. can do something about it. That secondarily, on  
11 dealing with the issues we've only -- we've mentioned once  
12 or twice, but I think actually is the most important issue  
13 between China and the U.S., the environmental climate  
14 issue.

15           That is -- there is a receptive -- there is a  
16 receptor in China for the right kind of approach from the  
17 U.S. And I think if I were king of U.S. policy, this  
18 would be the main thing the U.S. were doing with China  
19 right now is working together on climate issues. That's  
20 something the U.S. can do.

21           And then third, more generally, in steering the  
22 rise, the unstoppable rise of a great historic power, the

1 U.S. can work in ways that make this as non-disruptive as  
2 possible rather than magnifying disruption. So I think  
3 the U.S. has surprisingly many of the variables within its  
4 control.

5 MR. FERGUSON: I liked your distinction between  
6 the theoretical ability of the United States to stabilize  
7 its fiscal policy and its actual ability, because it seems  
8 to me that its theoretical ability is of no real  
9 consequence here. The problem is that its actual  
10 political ability to stabilize its fiscal position is  
11 nonexistent.

12 I mean the politics points to \$1 trillion  
13 deficits as far as the eye can see. Equally, the Chinese  
14 show no sign of allowing their currency to appreciate.  
15 They want to continue to play the money-printing game. I  
16 mean think of this as a contest between two printing  
17 presses. There's Ben Bernanke printing away dollars to  
18 try to get the U.S. economy out of a potential depression.

19 And the more he prints, the more the Chinese  
20 print, because they don't want the dollar to slide  
21 relative to their currency. So they print yuan. The two  
22 great powers are engaged in the --

1           MR. FALLOWS: And spend them all domestically,  
2 yeah.

3           MR. FERGUSON: -- most extraordinary money-  
4 printing exercise I think there has ever been. And the  
5 ultimate consequence is --

6           MR. FALLOWS: -- is because --

7           MR. FERGUSON: Can I finish it? Ultimate  
8 consequence of this continuation of incompatible economic  
9 strategies seems to me much more likely to be divorce than  
10 Jim has allowed in his remarks.

11           MR. FALLOWS: In fairness, the vast money-  
12 printing exercise is going on in the second coming of the  
13 great depression, which is just when you would want the  
14 big economies to be printing money. So it's not like this  
15 is happening in 1997 or 2000 or 1999 or whatever. So this  
16 is the right time to print money.

17           MR. FERGUSON: Watch the conflicts increase,  
18 watch the complaints on the Chinese side as they see the  
19 deficits grow from \$1 trillion to \$2 trillion as the debt  
20 burden rises up to 100 percent of GDP, watch the Chinese  
21 grumble more about (inaudible), and then watch the rest of  
22 the world grumble more about China's trade surplus.

1           And currency manipulation -- notice Tim Geithner  
2 hasn't used that word "currency manipulation," that phrase  
3 "currency manipulation" since the day he became Treasury  
4 secretary. But the Chinese are still manipulating their  
5 currency despite the fact that he's --

6           MR. FALLOWS: They're controlling their currency  
7 - they are controlling their currency, and it's --

8           MR. FERGUSON: You are spending too long in  
9 China, Jim --

10           (Laughter)

11           MR. FALLOWS: You're spending too long in the  
12 academy. There is -- must be some fine ground between two  
13 long and too short.

14           (Laughter)

15           (Applause)

16           MR. FERGUSON: I'm not sure, Jim, if you're  
17 referring to this session or to an investment strategy.

18           MR. STOSSEL: Oh that -- let's say -- one more  
19 question over here. And then we'll end it before we come  
20 to fist-a-cuffs.

21           SPEAKER: After -- I'd like to find out how you  
22 would respond to it, because I'm still not sure. Sorry.

1           MR. SILO: Good afternoon, Gordon Silo  
2 (phonetic). I've been trading in China for 36 years. One  
3 thing that seems very relevant is the Chinese are the best  
4 merchants in the world. They are really -- what you see  
5 in China today is capitalism on acid. And you, in a  
6 sense, see that they are very interested in keeping their  
7 customers happy and they're doing whatever it takes.

8           One of the interesting things that I'd like you  
9 to interpret is you were worrying about all those debt  
10 that they're putting out. But just like any merchant, you  
11 know, you extend credit for the customer to buy. And  
12 that's in the sense what they're doing on an international  
13 scale. How on -- how would you say that you don't see  
14 this relationship?

15           Which merchant do you know wants to turn off  
16 their customers and wants to do away with them? And I  
17 think they are desperately trying to build infrastructure  
18 and things now to -- shift, you know, to shift the balance  
19 of business they do. But they are really a consumer  
20 product-orientated producing country.

21           Now, you know, maybe in long, long term they'll  
22 get there, but they don't have a consuming economy. And

1 they produce consumer goods. So in a sense, I really  
2 don't understand how you are coming to this conclusion  
3 that Chimerica is going to break apart.

4 MR. FERGUSON: This -- a very simple way of  
5 thinking about this, and it goes like this. Merchants do  
6 trade, they don't do grand strategy. They don't do  
7 politics. In 1914, if you had asked any German  
8 businessman from Hamburg to Leipzig what they saw as the  
9 future, they would have seen -- they would have said  
10 harmonious Anglo-German relationships, everything is going  
11 swimmingly.

12 It's not merchants who make the decisions that  
13 lead to strategic rivalry. If it were, there would no  
14 wars. And this is a really important historical insight  
15 to bear in mind. The second point is that much as China's  
16 merchants would like Chimerica to continue, it can't  
17 continue if the U.S. consumer doesn't return to the  
18 shopping malls.

19 And what you have to realize is that this is not  
20 going to happen. The excessive leverage that accumulated  
21 over the last 10 years which created historically  
22 unprecedented debt ratios in the U.S. private sector means

1 that nothing can be done to return to the consumption  
2 growth that we saw in the last decade.

3           Remember, if it hadn't been for mortgage equity  
4 withdrawal, the real trend growth rates in the Bush years  
5 would have been 1 percent. The idea that we are going to  
6 have a trend growth rate much above 1 percent now that the  
7 age of leverage is over is a complete fantasy. So the  
8 U.S. consumer is not going to bounce back. And this is a  
9 reality that Americans themselves find it a little hard to  
10 grasp.

11           There is an assumption that somehow green shoots  
12 will come along, we'll all feel better, we'll take a  
13 macroeconomic Prozac and go back to the shopping malls.  
14 But, you know, there's a hard budget constraint at work  
15 here. This is an excessively indebted society. At the  
16 moment we're shifting the excess debt to the public  
17 sector, and the mountain continues to grow.

18           But what really seems to me completely out of  
19 the question is that the U.S. will return to being the  
20 principal source of demand in the world economy. So the  
21 Chinese merchant can hope and continue to hope for another  
22 several years for the return of the American consumer, but

1 that hope will be disappointed. And that's what Chimerica  
2 is a marriage on the rocks.

3 MR. FALLOWS: Just to address one point. I do  
4 recognize that merchants don't make grand strategy. I  
5 submit there is no significant point of resemblance  
6 whatsoever between imperial Germany and today's China.  
7 But we can discuss later.

8 (Laughter)

9 MR. STOSSEL: Well, to -- just to end. Let's  
10 have a -- the theme of the festival is constructive ideas  
11 about -- so let's see if we can achieve some comedy here  
12 with an -ite not a -odey. And each of you, 30 seconds on  
13 what should we be doing. What should the U.S. policy be  
14 to sort of maximize, you know, not only, you know, to  
15 diminish the risk of military conflict over Taiwan, but  
16 also to sort of maximize our mutual economic outcomes and  
17 mitigate the effects of the downturn? And then -- each of  
18 you in turn.

19 MR. FALLOWS: I will end, I think, on a point of  
20 complete comedy with me, which is think that almost  
21 everything he would want the United States to do, I would  
22 also agree the United States should do. That everything

1 that is in America's interest to try to restore its  
2 economic fundamentals and its proper place of -- in the  
3 world, that will help the Chinese-U.S. relationship too.

4 I guess the only place where we might disagree  
5 is, I think, there is no bromide that you can make things  
6 into enemies by describing them that way. I don't think  
7 China is necessarily an enemy. I think it's potentially  
8 an enemy, but not necessarily one. I think it's strongly  
9 in America's interest to keep that potential from being  
10 realized. But an action plan for the U.S., I beg we would  
11 agree on an action plan.

12 MR. FERGUSON: No, I'm sure that's right. I  
13 mean, the most important action plan is for the United  
14 States to come up with a credible strategy for fiscal  
15 stabilization over a 10-year time horizon. And until that  
16 happens, I think the Chinese have every right to be  
17 skeptical about what is being done here and how safe their  
18 investments are in U.S.-dollar-denominated assets.

19 You asked for comity. I think comedy is more  
20 appropriate here. You know, when Secretary Geithner was  
21 in Beijing last month, he assured an audience that Chinese  
22 assets were "very safe." And this was treated as comedy

1 by the students in the audience who burst out laughing.  
2 And I think that tells you all you need to know about  
3 Chimerica right now.

4 MR. STOSSEL: Well, thank you, James Fallows,  
5 thank you, Niall Ferguson, and thanks to all of you.

6 (Applause)

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