

**“CHINA’S TRANSITION AT A TURNING POINT:
CRISES, CHALLENGES, AND OPPORTUNITIES”**

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“IS CHINA RUNNING LARGE SOCIAL DEFICITS?”

SESSION CHAIR:

PROFESSOR KENNETH LIEBERTHAL,
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SPEAKERS:

DR. ELIZABETH ECONOMY,
COUNCIL ON FOREIGN RELATIONS,
“CHINA’S ENVIRONMENTAL CRISIS”

MR. JOHN POMFRET,
THE WASHINGTON POST,
“A MESSY PICTURE: CIVIL SOCIETY IN TODAY’S CHINA”

PROFESSOR DEBORAH DAVIS,
YALE UNIVERSITY,
“INEQUALITY IN CHINA: IS IT GETTING WORSE?”

KENNETH LIEBERTHAL: I'd like to welcome you back for the second panel today. I have a couple of announcements before we get underway. For people who are standing in back, as of 11:30, in 25 minutes, we have set up an operating a television downstairs and you can use that TV to watch the proceedings up here if you prefer not to stand. It's obviously up to you. There are also seats in the front row up here and one or two on the sides, so up to about seven or eight of you could come forward and sit up here, if you wish. But again, as of 11:30 there will be TV available downstairs.

Let me mention now also we will break at 12:20 for lunch. When we break at 12:20 for lunch, the lunch is buffet style, will be served out here, but then there will be a room downstairs where you can take your lunch to eat if this is too crowded up here and the hallway is too crowded. So feel free to go downstairs if you want to eat there or to bring lunch back in here to eat in here. In any case, at 1:00 Fareed Zakaria will begin his speech and that will be broadcast downstairs as well as be live up here.

So as of 11:30 this morning, and from then on out, you have options whether you want to be up here or downstairs.

The last panel really set up very nicely this panel, because the comments in the last panel highlighted, among other things, that while China has been growing very rapidly it's been growing in what was termed an unbalanced fashion, leaving a lot of problems in terms of what could broadly be called social infrastructure and the ways in which the government links up with the dynamically changing society. This panel addresses directly that set of issues, so I was just delighted to hear the comments of the last panel on how well it set the scene for what we'll be taking up in the next hour and fifteen minutes.

We have three wonderful presenters: John Pomfret, Liz Economy and Deborah Davis. And I believe in short introductions. These three are all well known. Let me just make a comment or two about each at the start.

John Pomfret has worked at The Washington Post since 1993. He has managed to put himself in hot spots, at least until he got to China, which must have been a vacation after the other places he had been, served in Yugoslavia -- this is the ex-Yugoslavia -- during the civil war there, went to Africa to cover the fall of Mobutu in Zaire and the eruption of another civil war there. He has really specialized in violence, turmoil and upset. He then went to China and for some reason or other we've had a few years of peace there, John, but I'm confident in you. And John will be giving a broad topic entitled "A Messy Picture: Civil Society in Today's China."

Second will be Elizabeth Economy. Liz Economy is a senior fellow for China and director of Asia Studies at the Council on Foreign Relations. She is one of the co-chairs of this entire conference and is responsible for a lot of the success of today's meeting. She has just completed a

book manuscript, which will come out soon, called “The River Runs Black: The Environmental Challenge to China's Future.” She, in fact, has written broadly on Chinese domestic and foreign affairs but with a strong environmental dimension to much of her work. And most importantly, she's a graduate of the University of Michigan Ph.D. program.

MR. LIEBERTHAL: Deborah Davis is a professor of sociology at Yale University where she has been for much of her career. Debbie has been involved in almost every kind of committee that has impacted on the shaping of the China field and has held leadership positions in a great many of those. Her past publications have ranged widely over the politics of the Cultural Revolution, Chinese family life, social welfare, class cleavages, occupational mobility. She's in the midst of two books that are under development right now and she is also very actively involved in researching advocacy work in response to the AIDS epidemic, which has been growing, unfortunately and tragically, very rapidly in central China and elsewhere in the country.

So we have three really outstanding presenters. I want to get out of their way and let them present. We'll begin with John. Each will take 15 minutes, and then as with the last session we'll open it to Q&A.

John?

JOHN POMFRET: Thank you. Thanks a lot, Ken.

My topic is extremely broad, so as a result I'm going to actually just tell you a little story because I find in my work that it's often the small stories that tell us the most about China.

Atlantic Place is a gated community in northwestern Beijing. Drive north along the six-lane expressway to the airport, take one of the exits, pay a 25-cent toll, and after cruising past several sprawling department stores selling the latest in Italian bath fixtures, Jacuzzis and teak dining furniture, you find yourself at its crenellated gates. Here the apartments range from \$60,000 to \$100,000. Amid trimmed hedges, tennis courts, a pool, and driving BMW SUVs, Chinese-made Buick minivans, and a whole lot of Shanghai-made Santana 2000s, resides China's upper-middle class.

The events that have unfolded inside the guarded gates of this sprawling community of several thousand people tell a lot about a new spirit of civic activism among China's better-off. In upscale communities such as Atlantic Place around China people are banding together to form homeowner's associations that have begun to confront the party, the state, the developers and the managing companies that have profited mightily from China's current real estate boom. In the past three years China's developers and homebuyers have sunk \$1.4 trillion U.S. into developments such as these.

The ad hoc homeowners association at Atlantic Place have led a management fee strike; they carried the body of an elderly lady who died in her apartment to a police station to protest lax security; and they want to fight against the developer who had bribed government officials to approve a scheme to fill in the park in the middle of Atlantic Place so he could build new buildings.

These days the association is struggling to become legal and trying to fend off local government attempts to stack the board with government hacks.

These associations are unprecedented because they constitute one of the first semi-independent organizations of people in the PRC who are bound together because they share concrete interests: trash collection, zoning issues, and a fight against the often massive ripping off of their interests by developers and their friends in the Communist Party.

In the real estate bubble that is urban China, apartments are generally sold before they are built. People routinely pay for a 1,500 square foot place only to discover once they move in magically it has shrunk to 1,000 square feet.

Homeowners associations have begun to fight on behalf of these members to get problems such as these addressed. Participants in these homeowners associations speak of what they call a bloodless revolution and consciously draw a parallel between their struggle for legal protection of property rights with the struggle in 1989 for less well-defined concepts of freedom and democracy. Then it was the idealism that brought people together and sparked an aborted revolution; now leaders of homeowners associations say common and very concrete interests, indeed as concrete as concrete, are sparking social changes and bringing people together again.

Several factors, however, are conspiring to make this so-called bloodless revolution extraordinarily difficult. These factors point to the extreme limits on civic activism in China. One is that homeowner associations, as they grow and become lobbying shops for collective interests, are gaining the attention of district governments in cities around China, which are using the full force of state power to squelch these movements.

The reason is simple: Many of these district officials are in cahoots with developers -- tweak a development plan, scratch out a tennis court here, get rid of a park there, allow more buildings to be built, and it could mean millions of Yen in gifts, a free apartment, study abroad for your children.

On September 1st China passed a law granting homeowners associations clear rights and responsibilities. The law said the association should be comprised of homeowners, but I have attended several preparatory meetings for these homeowner associations in which government officials were dispatched to argue that that law also gave the government a seat on these institutions. The argument was a familiar one in China: There might be a law that says A, but we have a regulation that says B.

Another reason the district governments fear homeowners is one of legitimacy. Residents inside these gated communities generally elect members of homeowner associations, but district government officials are appointed by the Communist Party. There is a huge and very natural tension between democratically elected homeowners, leaders on the bottom, and the apparatchiks appointed above them.

Finally, in the upper regions of the party there is an understanding and a fear of such grassroots organizations unless they are tightly controlled by the party. Earlier this year in

Shenzhen, 10 of the candidates in the local legislative race came from homeowners associations. This development surprised the party, which then moved to ensure that all of them, except one, a loyal Communist Party member, lost.

The development of homeowner's associations is actually a success story when it comes to the growth of civil society in China. People less well off than China's homeowners have even more difficulty organizing and often resort to desperate measures to get their cases heard.

On June 21st, for example, in a village in central Hunan, more than 500 officers, local officials and hired thugs stormed a muddy hamlet of 600 residents, smashing windows and randomly pummeling people who got in their way. What's the reason? Many of the villagers in this village in Hunan have AIDS or are HIV positive, and several days earlier they had demonstrated for better medical care. These people were exposed to the disease because of a government-backed program in the 1990s to encourage peasants to sell their blood and get rich.

The struggle for better medical care for the AIDS crisis in Hunan has been an extraordinarily difficult one for the villagers there. For years the government ignored the crisis because it said such reports, and I quote, "affected the local investment environment." To this date, China's government has only allowed the formation of a few civic organizations to help with the fight against AIDS, and their activities are extremely limited by the state.

In many cases, the government's fears of civic activism hurt itself. During the SARS crisis, for example, China's government informed many of the country's medical NGOs that it did not want their help during the crisis and that their help would only actually make the crisis worse.

More broadly, even registering a civic organization in China involves a labyrinthine series of approvals from a variety of government agencies that can take years. Most groups are required to post at least \$12,000 in capital at all times in a bank, and that's the equivalent of nearly 20 years income for average Chinese.

On June 6th, the government shuttered 63 independent social groups ranging from language study associations to a fan club for ballroom dance music because they did not meet strict requirements for registration. The message was clear: while China's Communist Party leaders might be contemplating some limited political reform on the top, it will be quite difficult for China's common people to win a broader say in the running of the country.

However, in closing I'd like to say that despite these difficulties I see reasons to be cautiously optimistic about civic activism in China. The behavior of these organizations like the homeowners association, their attempts to organize and lobby the government, to fight the nexus of money and power that defines modern China, to take cases to court underscores an important shift in the consciousness of the Chinese. For decades since the revolution -- and, one could argue, for centuries before that -- Chinese have been subjects of the imperial throne of the imperium that was Mao Zedong's China. Now the Chinese people are leaving that behind and moving haltingly towards a different kind of relationship with the state. They are no longer subjects, they are still not citizens, but they want to move in that direction and that gives me a great deal of optimism for this country.

MR. LIEBERTHAL: Thank you.

Liz?

MS. ECONOMY: Okay, thanks, Ken. I think this panel is going to be cautiously optimistic all the way around. I'm going to take that as my watchword, too, but I'm going to begin on the dark side.

China's environmental challenge is nothing short of monumental, but before I launch into a litany of the country's environmental woes, I think it's important to begin by saying China's environment challenge is a problem that's born of centuries of environmental degradation and pollution. Dating back at least to 600 AD, there were reports of rampant deforestation, desertification, and even population-induced resource scarcity. So the problems that Wen Jiabao and Hu Jintao today confront are not merely a function of Mao Zedong's campaigns against nature or even Deng Xiaoping's reforms but really of centuries of environmental devastation.

Just to give you a sense for what the Chinese leadership is grappling with today, about 60 million people find it difficult to get enough water for their daily needs. In concrete terms that means in a village in Ningxia, that people bathe once every eight days. About 10 times that number, close to 700 million people, drink contaminated water on a daily basis. About a quarter of China's land is desert and that is advancing at a rate of 900 square miles per year, leading former Premier Zhu Rongji, around the year 2000, to say that maybe they'd have to move the capital from Beijing someplace further south because of the encroaching desert.

Air quality in China overall has shown very little improvement over the past few years despite a massive campaign to improve levels of pollution. There have been a few success stories. Especially for those of you who travel to China, recently you'll notice that the air quality in Beijing has actually improved and Shanghai too is better. This has a lot to do with moving some of the polluting factories outside the cities' limits. In fact, in Beijing they're moving them to other provinces. But they're having some successes, but as you look further west into the interior provinces you'll find that the air quality there is deteriorating.

In terms of China's forest resources, they have long ranked among the lowest in the world due to, again, centuries of deforestation. Now, with some aggressive afforestation efforts, about 16 percent of China's land is covered with forests. That compares with about 27 percent for the world's average. But what's important to note is that deforestation contributes to soil erosion, to biodiversity loss, and to the sort of horrific flooding that China experiences almost on an annual basis.

The point really is that on every front, as China's leadership looks out at its natural environment, the environment is under stress.

And beyond the challenge of negotiating the problems with the natural environment are the problems that the natural environment causes for the health and welfare of the Chinese people. I think the most tragic impact has clearly been on public health. Beginning in the 1990s, local

people and local officials began to associate local pollution with local health problems. Particularly along some of China's major river systems, the Huai River, the Yellow River, you'd find entire towns where the incidence of spontaneous abortion, developmental delays, stunted growth, and cancer was much higher than the norm. This is due to the polluted water and polluted contaminants in the soil.

In terms of air pollution, the World Bank did a study in 1997, now sort of a renowned study, that indicated that about 198,000 people died prematurely in urban areas in China from air pollution not related to smoking. About a million people throughout the entire country die prematurely from air pollution.

So the environmental impact on public health is a very important and growing concern for the Chinese leadership.

Migration and environmental refugees is a second type of social impact of environmental problems. Since 1990, Western and Chinese analysts together have estimated that about 20 million people have been forced to migrate because of desertification, and from lack of access to water, and they expect that 30 to 40 million over the next two decades will have to migrate.

I think it was you, John, that did a story on Taiyuan back in the late 1990s where the city leaders at one point had to consider moving the entire city of a few million people because they didn't have enough water. Instead they undertook a major river diversion project. But in any case it demonstrates the extent of the problem at this point.

There's also the cost to people's livelihood. Again, water pollution and water scarcity contribute to factories having to close for long periods of time, sometimes shuttered forever. Crops can't be harvested and fish die from water pollution.

All told, the World Bank estimates that air pollution, water pollution, land degradation, etc., the costs of environmental pollution and degradation are equal to about 8 to 12 percent of China's GDP annually. This is not an insignificant number.

And finally, all of these problems -- public health and migration, refugees and loss of jobs, loss of livelihood -- contribute to social unrest. There aren't any really good overall figures for the level of social unrest and social protest, but in the late 1990s a leading public security official said that environmental causes were one of the four major sources of social unrest in the country.

So that's sort of the dark side. Now let's move to slightly less dark side and how China is trying to manage this problem. And I think it's easiest to think about it in terms of China following the same path that it did in terms of its economic reforms, which basically means to remove the center as sort of the central sort of focal point for policy and to decentralize authority to local officials, to open the door to non-state actors to develop the legal system and to look to the international community for substantial assistance.

In terms of the sort of central level commitment to environmental protection, it probably rivals that that Minxin mentioned to education. About 1.3 percent of China's GDP goes to

environmental protection, and even that is sort of a fudgy number; much of it could go to public works really having nothing to do with environmental protection. But I think a better way to think about it is that Chinese scientists say that in order to keep the situation from deteriorating further, just to keep China's environment where it is today in its sort of sad state, they should be investing at least 2.2 percent of GDP.

China's central environmental protection agency, the state Environmental Protection Administration, has only 300 full-time staff. It compares with roughly 6,000 for our EPA. And they do have over 100,000 countrywide, but in many areas these people are not very well trained, they're certainly under-funded, and EPBs in general are quite understaffed.

When I was in Shanghai not long ago I met with an environmental protection bureau official and he told me in Shanghai, which is one of the sort of star cities for environmental protection, they have 100 environmental inspectors just to go out and monitor factories, and I thought that was incredibly impressive until he told me they had more than 20,000 factories that they needed to investigate on an annual basis, at which point you begin to get a sense for the real nature of the problem.

In terms of the decentralization of authority and what it's produced, I think it's produced a patchwork quilt of environmental protection where you have areas along the coast -- you know, Shanghai, Xiamen, Zhongshan and Dalian -- that have really begun to make some important strides toward improving their environment. These are cities that have proactive mayors. That's very key. They take a personal interest in protecting the environment, they have relatively high levels of GDP per capita, and they have strong ties with the international community. These are really the three factors that determine whether or not a city is going to make advances in environmental protection.

But that leaves a lot of the country pretty far behind -- you know, areas like Sichuan and Qinghai where in the past decade 2,000 lakes and rivers have dried up from overuse and from climatic change. And while you might think that this is just a problem for Qinghai and for the West, it has enormous implications, because these rivers and lakes feed into the Yellow River, which traverses the entire country and has been running dry on and off for years for up to 100 days a year. So it's not just a matter of how this impacts a local community in some of those most impoverished areas; this has widespread ramifications for the entire country.

Onto perhaps one of the most exciting and brightest parts of what's going on in environmental protection in China, though, and that is, as John was just talking about, the expansion of civil society and the NGO sector, and NGOs in China that deal with the environment are some of the most proactive and vibrant NGOs that you're going to encounter. One of the leading NGOs has upwards of a thousand members at this point. The media is very involved in environmental protection. The media likes to go out and investigate polluting factories. People line up outside television stations to ask TV reporters to go and investigate a polluting factory that they think is polluting their water or air. There is a lot of energy within the media and with the NGO sector.

There is one case in which a television producer went to Germany to produce a program on battery recycling. She came back, ran the program in China, and a doctor in Dalian saw the

program and decided that, in fact, she was concerned that her three-year old daughter, that the fruit that she was eating was probably being polluted by a local battery dump. So she decided to start up her own battery recycling program. She went to the local environment protection bureau, which said it couldn't help because there were no regulations dealing with battery recycling, but it would support her in whatever she decided to do.

And so then she went to a number of department stores and asked them whether they'd be willing to put out some boxes so that people could dump their batteries in them. Three of them agreed to do it, and soon in Dalian and in many other cities in China there were so many batteries being turned in to be recycled that the EPB officials began to complain of "battery phobia" They didn't want to take any more phone calls asking where people could recycle their batteries, because the EPB's simply didn't have the capacity to recycle them.

So this is part of the excitement that's being generated at the grassroots level when it comes to environmental protection and ways in which the media and the people are working together to make a change.

The third part of what's exciting is developments in the legal system. And this has a number of components. The head of the NPC's Environmental Protection and Natural Resources Committee is the former head of the entire Environmental Protection Agency in China, Qu Geping. He's a very proactive and very smart man, and the laws are becoming increasingly sophisticated and better able to be implemented. So that's one important advance that's being made.

There are also environmental legal NGOs. A man named Wang Canfa who's become fairly well known in the States due to a lot of press reporting on his work. He's a very energetic and charismatic man who's been pressing lawsuit after lawsuit against polluting factories on behalf of farmers and other people who have had their crops or their fish have been poisoned. Not that long ago he won \$240,000 U.S. for a group of eight farmers, and this is not insignificant I think.

Finally, the last part of China's strategy has been to seek assistance from abroad. Here China has been enormously successful. It has been the largest recipient of environmental assistance from the World Bank, from the Global Environmental Facility, from the Asian Development Bank, and certainly from Japan, who's environmental ODA to China since the late 1990s has been at least one-third of all ODAs to China.

But it's not merely sort of international governmental organizations or countries that are playing an important role; it's multinationals, and a lot of multinationals from the United States, from Europe – not so much from Taiwan and South Korea, which have been criticized by the Chinese government for exporting their most polluting enterprises to China, but from these other countries have done a lot to raise the bar of environmental protection.

Shell Oil Company, for example, which is trying to sign a joint venture agreement to develop the West-East pipeline, this massive infrastructure project that PetroChina is heading, even before it has a joint venture agreement Shell is undertaking its own environmental impact assessment and its own social impact assessment. It persuaded PetroChina to stop development of the pipeline at one point because it was going to run into part of the Great Wall, a remnant part of

the Great Wall, but in other parts of the plan it had readjusted so that it would avoid places with endangered monkeys and camels, so these are important ways in which multinationals can really help to shape the behavior of their Chinese partners.

So let me conclude by saying that like John, I am cautiously optimistic. I think unfortunately that the environmental NGOs, the international community, even the legal system operate at the margins, and so that the difference that they can really make is infinitesimal in some way at this point in time. It will grow over time, but without a strong commitment from the center, which we don't really see, either in terms of investment or in terms of manpower, I think we're not likely to see much improvement. The best we can hope for in the meantime is a steady state.

MR. LIEBERTHAL: Thank you very much. We're seeing a picture of a dramatically changing China, of a government trying to respond in various ways, but how these two link up is a very tough thing to get your arms around fully.

We now turn to another aspect of that dramatically changing China, which is inequality and whether it's getting worse, and Deborah Davis will make her comments on that.

DEBORAH DAVIS: Thank you, Ken.

I just want to say something about the handout. I was expecting, like most sociologists, to have a PowerPoint, and then I have my backup, which is the overhead, and then, of course, we moved and I know the staff had to run around and expend an extraordinary amount of time and effort to produce handouts from the overheads that we sent. And so, of course, I'm very grateful to their efforts and taking that initiative. But I have to say two things. This was not prepared as a handout, and I will note the sources as I go through this. This is not for distribution. And some of the images I have here I negotiated with friends in China on Friday, and the understanding was that I would be showing it and it could be shared, but the understanding was not that it would be reproduced. So anyone who wants to follow up --

MR. LIEBERTHAL: You will leave your handouts at the door on the way out. (Laughter.)

MR. DAVIS: No, no, no, no. That's not at all what I want to say. I just want to understand that if you would like to have follow-up, please do e-mail and I will be happy to help you with this. And I also, as I go through, will tell you the sources.

And what I'm going to do is walk through the 12 slides, with additional information, which I have prepared.

I also want to flag -- my task was to talk about the government's response to inequality. My own work right now is not as focused on what the government's response is, although I certainly will make a good faith effort. So what I'm going to do is for about 10 minutes I'm going to walk you through the slides and make my general point and give you some additional materials.

So let me begin.

The title of the presentation now is "Growth in Inequality." In other words, what I want to do is, as the other presenters have done, is talk about the gains but also some of the costs and what this implies for where China seems to be at this time in comparative perspective: comparison to China in its past, its own recent past of the last 30 years in particular, but also in comparison to other parts of the world, including our own country.

So the first thing is this table, which if it flashed up in color -- I guess you all have color actually; I should be looking at that -- is taken from the official yearbook, and this comes from the 2002 yearbook. And I simply -- and for those of you who like to use Excel and stuff, you can actually go to the website and now the Chinese statistical yearbooks are in English, they are in Chinese, they are Excel-ready; you just block, you copy, and you create a chart. It's a nice graphic.

Now, we can talk later about whether it's estimated correctly, but what it does tell you in that first graph is the story that we know quite well now, is the growth is substantial in both rural and urban China, but particularly since 1990 -- and that's what I'm focused on for this presentation -- the rural-urban gap has widened considerably in terms of the absolute difference in the average per capita income, rural net, urban disposable.

I recently saw some material on the first quarter of 2003, which shows the gap to be even more extreme than what you see here. This is from a government-sanctioned publication called "Survey World" I find it quite useful and I'm going to use it for a couple of other of the graphs that I've produced for you. For the first quarter of 2003, they estimate 10,000 renminbi for urban residents and 3,000 for rural. I found this gap quite extraordinary if you think how fast it's moved beyond where it was in 2001, and thus as I was preparing for today's presentation I checked my numbers with several outstanding economists who work on China.

I've exchanged e-mails with Tom Rawski, who will speak later. I have exchanged e-mails with Christine Wong, who was at the Asian Development Bank and now teaches at the Jackson School at the University of Washington and 've exchanged e-mails with Carl Riskin about this whole question of measuring income and measuring consumption. We all know that there are problems, but on the other hand I think this estimate is to be taken seriously, so that's the firstpoint to flag. And the takeaway here is that the gap seems to have accelerated in the last 18 months, even as Hu Jintao has, I think actually quite sincerely, wanted to reduce the urban-rural gap and deal with inequality.

The next graph displays an index for income gain where 100 = 1978 and that's very important because it tells a story of early enormous gain for rural people, which came to a screeching halt in about 1988, and then the story of the '90s of a widening gap. And if you work out the percentages for 1990, it means that for urban residents their indexed growth, has doubled while for rural residents it has grown only 60 percent.

The third slide is a photograph that was sent to me on Friday by the friend in China who said I could show it but not publish it. What you see is most likely a rural-born immigrant, who is probably a very successful recycler, carrying his wares or moving them from one even wholesale area to another through the streets of Beijing, and it's a picture that captures I think many of the contradictions and challenges in Chinese society today.

Here I flag two points. What we see in this picture is the poor and the rich, or the old and the left behind in some ways, literally the recyclables, and the gleaming skyscraper in the same socioeconomic space; that is, those recycled items were possibly picked up from the canteen in that particular space.

Thus there is a linkage between the different components and players in the new Chinese economy, but I don't think they are linked in the political space, so that the way in which that rural migrant to the urban area can express his views politically has to take him back to his village. Thus with this photo I wish to stress how socioeconomic integration over this uneven geographic terrain exceeds the integration of the political space.

The next slide summarizes shifts in Gini coefficients which reveals with great parsimony and clarity the changing distribution of per capita income. The slide uses materials I gathered from from SSB and from an article by Gene Change in *China Economic Review* vol 11:335-340.

The takeaway here is that there has been a steady increase in inequality, and this problem is particularly acute in rural China, a conclusion that underlines Professor Pei's comment this morning about the character of the rural political crisis and the rural burden.

In the next slide I flag a comparison that is rarely made, but which is consequential for Americans; that is, the World Bank has documented, -----and it's repeated almost at every conference one attends----- that over the decade of the 1990s China has had the fastest increase of inequality ever measured by the World Bank. True. However, when we look at this one -- you can compare it to the United States -- what we see is that China has caught up to the United States, and that's what I feel is important for Americans to remember. We live, if we use Gini coefficients as our measure, at a very high level of inequality; 0.456, 0.458 is what has been given, and China is about the same.

Thus, as you consider what are the political, social, and economic consequences of China's increasing inequality, we need to consider the experience of a society you know very well. The bottom line is that China is not an outlier nor a pariah.

The next slide documents shifts in poverty rates, and here again I've drawn heavily on the World Bank, and in this case I had pasted in the source and so this is certainly available to everyone and it gives you the working paper number. These are two extraordinarily excellent economists who work at the Bank.

And what I want to flag here are four things. In this first column you see, how do we measure poverty? This is a very big issue for those of us who care about poverty or inequality or want to make comparisons. The first measure of 75 cents U.S. a day is what comes close to the Chinese measure. It is not even subsistence.

What I am going to show here is what -- if I use something like Sens' two versions of poverty. One definition of poverty is where you are deprived of the resources to survive -- that's 75 cents. The second one, the dollar a day, is what the Bank often uses as a way of drawing a line. It's a very good line. I do not think, and I'm not alone, that this works for China anymore. I think the \$1.50 a day is a much better one. China is much richer than a \$1-a-day kind of comparison, and

that's why I include it here. In other words, I think this \$1.50 a day comes closer to Sens' second definition of poverty, which is the incapacity to achieve one's goals, meaning a sturdy house, adequate healthcare and keeping your children in school through high school. These are goals that are the norm in rural as well as urban China. It cannot be done on a dollar a day.

So now we look at the poverty story. The story of China, if we look at the minimal rate of 0.75 USD/day, is 8.9 percent, and the official rate for – this is using the State Statistical Bureau -- for 2000 is 6.7; the official rate for last year is 3.9: In short, the government has declared a victory over poverty. It is not trivial, these gains. But if we use a more realistic standard, then we can see that the problems are more entrenched, particularly if we move up to \$1.50 a day.

But I also wish to flag important gains as well as failures. There's good news and there's bad news. The good news is that the overall situation continues to improve. The bad news is poverty is still at quite a high level. If we're talking about rural China, at \$1.50 a day, it's more than half the population perceives themselves and I would say are living with levels of noticeable deprivation.

The third point I would stress in assessing rural poverty is the poverty index, that is the distance in terms of higher income a household must travel "up" the income ladder to cross over poverty threshold, and that has deepened. That is hardcore poverty has increased, particularly in the last six years.

In regard to trends in urban poverty, I have a couple of comments here. Official rates are trivial and yet we know urban poverty is very severe. Thus we know that there must be serious problems of measurement. I think that sociologists often prefer half the median income as a measure of poverty, and this allows you to make it place specific. And I'm going to draw on analysis of the 2000 census presented by Professor Feng Wang, a demographer and sociologist at UC Irvine, last June at a conference at Harvard, and which will soon appear in a new book.

The materials focus on income trends in 3 very different provinces Liaoning, Sichuan and Guangdong. And what we see there, if we use the measure of half the median, is growing inequality at a much higher rate than you would get if we used the World Bank figures that are presented in the table.

Specifically, if we look at Liaoning, what we see is through 1990 actually a decline in poverty. They did reasonably well. But then by the time you get to 2000 it's over 12 percent of the population of urban Liaoning are in poverty. In Sichuan it's 9 percent, and in Guangdong, which we usually presume to be an economic success story, the urban poverty rate is 11 percent. That is, the poverty rate in urban Guangdong is equal to urban Liaoning.

Moreover, we should remember that these estimates do not include the migrant population, that in the largest cities is between 25 and 30% of the workforce, and were these people included the poverty rates would be higher still.

In the short time remaining, I will quickly comment on the two maps I created to represent the geographic unevenness of China's economic development. Here what you see is a map which uses the development scores published in "Survey World" last spring for the 100 counties the Chinese government believes to have the highest level of overall development and the

greatest potential for future growth. The outcome is not surprising. Development has been concentrated along the coast. But what is surprising, and that is your second maps, is that even within the very rich, coastal delta around Guangzhou, there is striking geographic variation.

The last piece I was going to do -- the one thing I had to cut because it wouldn't transport, it was too big a file -- I've also created a map for the United States, a color-coded map for the United States. We have very unequal distribution of wealth. We have concentrations of wealth. So again the take away, is that China is not an outlier nor a pariah.

Finally I will shift from questions of income inequality and poverty, to look at distribution of social welfare goods, in particular medical services. Here I will draw on a paper of Wang Shaoguang a political scientists at the Chinese University of Hong Kong, that was published in DUShu in July 2003 , and in a fuller version in Bijiao also in July 2003.. Here let us look first at the growth in the # of hospital beds

What we see here is growth in hospital beds. Again, China is making progress. Point two, it is extremely uneven across the country.

We also should note and flag that this growth is also being reflected in percentage of GDP spent on healthcare. The Chinese government's claim for greater attention to healthcare is not just empty rhetoric; they are actually putting more resources into healthcare. Moreover they also have made important health gains in the past 15 years.

First I want to flag the lower infant mortality. This is important. Again, there are gains. They are not as fast as they could be. In Wang Shaoguang's paper he compares it to other parts of Asia, particularly Sri Lanka, which has had a better story under a worse economic growth but made more progress in lowering infant mortality

The next to last slide documents the growing urban advantage in health services. The takeaway here, as we all know, as you can see it in the graph -- this I just created; it's not so very pretty but it gives you the big story -- the big takeaway here is a couple of things. When WHO ranked all the countries in the world in 2000 on equity, out of 191 China ranked 188. India was ranked 43. The United States was ranked 54. China is very worried about this and it's a big issue and it's complicated. I can't possibly cover it in the minute I have left. What I will flag is a factoid, is we look at the rural percentage of urban health. It's not only this growing gap in the number of beds. Counting hospital beds, as you know, is very problematic. This was a graph to get the message to you. The best beds are in urban areas; bad beds were in rural areas. They close the beds; they can't service the beds. The distance people have to walk actually to a hospital overall doesn't seem to have increased. So the numbers in the picture are slightly distorted.

What is not distorted it is that the percentage of the healthcare expenditures being spent on rural people has fallen dramatically from 35 percent in 1993 to 25 percent in 1998 to 22.5 percent in the year 2000. Now, we know that more people are counted as urban than rural, so the raw percentages can't be used like a piece of steel, but the trend is very pronounced and well documented.

And the last question I will raise is about how have the financial obligations for medical care shifted over the past 15 years. As the slide documents, using official government data, China has dramatically increased the burden on individuals and their families, and the shift toward greater reliance on individual payment is extraordinary. . From 1980 to '1990, it went from 20 percent to 40 percent. From 1990 to 2000 it went from 40 percent to 60 percent. Sixty percent of medical expenditures now are paid for by individuals in China. In Eastern Europe, it's 30 percent. In poorest of the poorest of the LDCs, it's 41 percent. This is even higher than in the United States. So again, China has gone to extremes in many ways in terms of the way in which it's distributing/financing social welfare.

My final comment, in answer to the question what has been the government's response? I have noted that currently my own fieldwork does not focus on the particulars of welfare reform. As a result I will close by commenting on government rhetoric. Rhetorically it is obvious that they are concerned, a factoid that is backed up by my experience of spending the month of July doing nothing but reading People's Daily because SARS cancelled my field work June 18th.

MR. LIEBERTHAL: I want to congratulate you on your sustained sanity after a month of reading People's Daily. (Laughter.)

MS. DAVIS: Point two: Secondly, the central government has already drafted tax and finance laws and policies that will specially address the uneven spending on education and healthcare. These are reasonable ideas, and it shows that there are people of good faith working on sometimes-intractable problems.

The third dimension of government response, and others have talked to this with greater expertise, is poverty alleviation programs and infrastructure investment by local governments. Some local governments are really doing a superb job and other governments fail miserably, incapable and unwilling to take action.

MR. LIEBERTHAL: Thank you very much. We really had a very rich agenda of issues put on the table. The floor is open. We have about 25 minutes for questions. Please, when you have a question, wait for the microphone to get to you and then please identify yourself briefly at the start of the question. One two. First, here.

Q: Emily, Demonte C and A (ph) Corporation. I have a question for John Pomfret. I was interested in your story about the growth of civic activism among China's wealthy elite, and I wonder if you could talk a little bit about the potential spillovers to the rest of Chinese society. Does the average Chinese citizen know that these associations exist? Is the media prohibited from reporting on them? Was the fact that many of those Shenzhen candidates were from homeowners associations, did that make them more attractive as candidates? Any insights you could share would be welcome.

MR. POMFRET: The media has reported a lot about battles between homeowners associations and developers. That's why they're reported in most newspapers in most cities in China. And they've taken a very crusading role in that in attempting to expose some of these more

– the sleazier practices of developers. So typically, the problem is, you know, you buy a place and it's supposed to be so many square feet and you move in and you discover it's actually half the size of the place that you bought. So that is – there's definitely a lot of spillover and there's an increasing awareness of homeowners associations.

And the second question?

Q: The candidates in Shenzhen, is it making them more palatable as candidates to the average citizen?

MR. POMFRET: There was some reporting of that in Shenzhen but they were nominated by the people in their shaotchu (ph), these areas where they live, and that was unusual in that often the nomination process is controlled completely by the Party, but in this case the nomination process actually went down and then actual people, you know, were signing petitions to get their candidates on the ballot. And so, the fact that they actually were allowed to get on the ballot was considered a breakthrough. They didn't win because at a certain point the Party said, oh, these guys can't win, we're not going to allow them win today. One fellow won and nine of them lost, but nonetheless that was also reported in Shenzhen and caused a bit of – you know, a lot of controversy in the city, and people talked. But Shenzhen is now moving more and more towards becoming an experimental area for political reform, so the amount of knowledge of this type of issue is growing there as well.

MR. LIEBERTHAL: Thank you. Could we get a microphone over here, please?

Q: I'm – (inaudible) – from the Voice of America, VOA. I have a question for Dr. Economy. Historically, the developed countries, such as England, used to have a big problem with the environment. Do you think China – do you think – in the long run, if China develops its economy and technology, do you think that the environmental problem of China will decrease as the experience of the European economy? Thank you.

MS. ECONOMY: Yes, it's a good question. I think whether China is simply following in the path of other developed countries as they were developing – I think the challenge for China is that it has a couple of challenges that those countries really didn't have and the United States didn't face. Number one, the challenge of its population, which again is, a quarter of the world's population that gives China, like India and maybe Indonesia, a certain set of pressures that countries like England and the United States really didn't face.

Second, the level of degradation and pollution that China confronted at the time that it really began its very aggressive economic reform program in the late 1970s and 1980s was far greater than that that the United States faced at or that England faced at a similar point in development.

And finally I think that the real challenge is the one that I mentioned about the 2,000 lakes and rivers in Qinghai that have already dried up, and the question is does China really have the time at this point. It really needs to act much more aggressively because some of these things that are transpiring are irrevocable. They have the "three rivers, three lakes" campaign now that's been going on for several years, and year after year they've made absolutely no progress in cleaning up

these lakes and rivers. So some of these problems are not just intractable but some of them are irrevocable. That's really the problem. I don't think China has the time that we might wish that it would have.

MR. LIEBERTHAL: Yes?

Q: Thank you. Kathleen Stephanson, from Credit Suisse First Boston. This is a question for Professor Davis. Do you have any estimates and particularly for the next decade, say, on a yearly basis of the rural migration to urban areas, and do you think that the economy can absorb this additional supply of labor?

MS. DAVIS: I am sure there's a better expert in the room, so I'm just repeating what a fairly well-read person would say and what people are worried about now. China has been in a period of what's called jobless growth, as you know, for some time, and the things that I am reading suggest that this will continue. It happens in urban areas; that is, the number of new jobs are growing at a lower rate than the population.

So the debate that's out there is can China, through industrialization, create enough jobs to make up for those that are lost plus the underemployment, and what I have read – and I just read a recent piece by two demographers from China at the – who are publishing in the RIAA site in London – is a high level of pessimism. Picking up on what Liz said, the population is very, very large and efficiency, if one is going to only add workers, the marginal efficiency of that, it's not an easy picture.

Now, whether workers, the underemployed from rural areas, will continue to move to the large cities at the same rate, is a totally open question. What seems to be – and I stand to be corrected by people in the room who know more about the whole policy, perhaps who could speak to this – the goal is to have hukou controls gone by the Olympics and we know in many smaller level cities it's already gone; in other words, the market will rule. People can leave their village and go to a city. If there's no work, one presumes as rational actors they will return. In their real world, outcomes are rarely so rational and orderly.

MR. LIEBERTHAL: If I can just add a point to that, last year, I was interviewing in China in part on this topic because they have to have internal control figures they use for purposes of planning urban infrastructure development, social service delivery, that kind of thing, and what I was told was that they are planning on an urban – you know, rural to urban migration of roughly 100 million additional people by the year 2010. But, as several officials commented in one way or another, effectively, that could happen by 2005; we just aren't sure because it's going to be driven more by a market. I thought to myself, if you're dealing with a system where the variance, you know, for when 100 million people will move is, you know, three years or seven years, holy Toledo, I mean, this is – but anyway, just to highlight the uncertainties that you are pointing to.

Other questions? Yes, ma'am?

Q: Christine Guinness (ph) from the CNA Corporation. I have a question for Professor Davis. You spoke a bit about the medical system, and I just had a question about the AIDS

problem in China and if you had any idea about the figures, official or otherwise, of how many people are afflicted with HIV and AIDS? And also, following that, what's being done? I know that in the urban cities – well, in the large cities – there has been a little bit of a campaign to start to educate people on the spread of AIDS, and I was wondering if that was being done in the rural communities as well and what the situation was.

MS. DAVIS: We have on our Web site – if you go to yalechina.org, the most recent edition of the Yale-Health Journal focuses AIDS in China, and so that's one place to facts and figures. The articles are revisions of presentations at a conference we did last December in New Haven, and in addition to the papers we had David Ho talking about the vaccine and his work from Aaron Diamond and also Wan Yanhai, who is the now world fellow at Yale.

Now in answer to your questions. Estimates of AIDS patients now run between 1 and 2 In terms of identifying those most at risk there are 3 categories who elicit different interventions. First there are IV drug users who were the first significant group, second were commercial sex workers, and then because of blood transfusion disaster, there is a large and growing population in 7 inland provinces of those who became infected when selling their blood.

In terms of rural education, again I have not done the fieldwork, but drawing on my general reading, it would appear that AIDS is now mentioned as a major public health issue in China. So there has been a tremendous change since last November in terms of the governments response.

In terms of treatment, of course, we're in a revolution now. We think that if the cocktail can come down to 75 cents a day it will be actually a very effective treatment. It's not there yet. It's about \$1.50 and I think that will be – the gap will be closed in the next 18 months.

The education piece is very uneven but again, I see progress. I mean, it's – if you're on the ground and you're actually working with it, you can report many, many horror stories, there's no doubt about it. But that was true when that epidemic hit every other country also, so I'm not apologizing for China. They definitely, as with SARS, were unnecessarily slow on the uptake and the level of denial, which represents old ways of dealing with any unpopular information is very deeply entrenched in the bureaucracy. I think what gives us hope is that so many of the people on the ground and people who we work with in the mid levels are just extraordinary people of bravery and commitment.

MR. LIEBERTHAL: Thank you. Is there anyone in back? I just want to make sure I'm not missing. Yes? There's a hand up. I can't even see who it is, but –

Q: Helen Ho, China law one. I have a question about the Three Gorges Project. It has caused a lot of discussion years back and it went ahead without significant U.S. support. And if you read the People's Daily, it is supposed to be going very well and it's going to be – the power stations are going to be operating, but also there have been some reports about cracks in the walls. So what's your assessment of whether this is going to be a triumph or disaster? (Laughter.)

MS. ECONOMY: Well, I would say one of the most significant problems that the Chinese themselves have identified – because you're right, they have pointed to some cracks in the cement

and some of the foundation in the dam and they're talking about the problem of sedimentation and whether so much sediment is going to build up behind the dam that it's going to be rendered ineffective. The Chinese have said that the sluice gates are going to be able to handle it, but it's such an enormous amount, it's larger than any other dam has ever had to handle. So, I think we really don't know whether it's going to be a triumph or a disaster. The Chinese scientists that are talking about the sedimentation, for example, are saying we ought to see what's going to happen within about ten years. So in ten years' time, we will be able, I think, to tell whether or not the dam is going to be one of these great Chinese triumphs or not.

But I think in many other respects it has not been a triumph, of course. If you look at the resettlement process, it has proceeded with a lot of difficulty. Even though the Chinese press has touted some of the success stories in relocating people you see a lot of corruption, a lot of money not being distributed the way that it's supposed to have been distributed, people still trying to get to Beijing to tell the central officials that in fact they're not getting the money, they're not getting the farmland, they don't have any jobs, things are not going as they should be going. So no matter what happens in the end with the dam, I think the process has not been a particularly successful one.

MR. LIEBERTHAL: To sum up, it may end up being disastrously triumphant. (Laughter.) Yes, back there? Way in back, on the right. Yeah.

Q: Losang Rabgey from the University of London. Thank you for these very informative papers. I would like to ask about the inclusion of the – in the discourse on China, the inclusion of the so-called minority areas. Whether you're discussing water issues in Qinghai and Sichuan, which are populated predominantly by Tibetans, or the rural-urban gap, the growing gap, I think all these challenges are arguably magnified, and through the – in the context of ethnic inequality, and I would like to ask what you think the consequences are.

ELIZABETH ECONOMY: Well, one of the interesting – you want to take that, too? (Chuckles.) Yeah, thanks. Okay.

I think one of the things that we need to look very carefully at now is China's go west campaign, this xibu da kaifa – opening of the West – which is supposed to be pouring a lot of capital into the West for development. A lot of Chinese scientists in the Western provinces -- environmental scientists – are very concerned about what this is going to do to the environment because a lot of what the central government has been proposing – what Beijing has been talking about, for example, is exploiting the West's natural mineral resources, and you know, this can mean strip mining and all sorts of unattractive things.

I think there is also a problem with how the wealth is going to be distributed. This is one of the things, in fact, that Shell has been looking at in terms of the pipeline because they're very concerned about whether or not any of the profits that they are hoping – (chuckles) – to reap from the pipeline will be going back to the Uighurs in Xinjiang, because there really aren't many jobs to be had there. It's really something that's going to suck out from the West with no guarantee that anything is going to go back in, and so Shell has been trying to think of innovative ways to ensure that some of these profits will be redistributed to the people whose land is being tapped to increase the wealth not only for Shell, but really for the coastal provinces.

So I think that in a number of ways we need to pay very close attention as this go west campaign develops to see exactly what the central government is doing to ensure that the environment is protected. And in fact, I just read – I think it might have been this month or last month, that there was a conference where some of the legislators from the West got together and were talking about the need to develop laws and regulations to govern the exploitation of the natural resources in the West, as they feel the East is coming in to exploit them. So I think it's going to be a very interesting and potentially quite problematic area to watch.

MR. POMFRET: I would also like to say, on issues such as civic activism, for example, things that were talked about in the first panel, about it's much easier for Chinese people to get passports now than they used to. When it comes to the minorities, often Uighurs and Tibetans have a very difficult time, still, getting passports. So that type of change you have seen in the broad area of China society is not trickling down into the minority areas.

MR. LIEBERTHAL: Thank you. Over here?

Q: I'm Robert Herzstein , a Washington lawyer. I would like to ask a naïve bottom line question of all the panelists. Is there any hope that China can get on top of these severe social problems – environment, poverty, health, whatever they are – unless it backs away from the notion that they can be handled by a central bureaucratic operation that gives greater sway to private civic organizations?

MR. LIEBERTHAL: By that I assume you mean greater sway than current trend lines would suggest? Is that it? Yeah.

Q: Exactly.

MR. POMFRET: Well, I guess because I live there I can try my – I don't think they can. I think they need to do that; they need to do it quite quickly. But it gets back into Elizabeth – Liz's point, that they have – there's a lot of problems that they're facing, and some of them are irrevocable problems. But unless they recognize that some of these things are issues that can be dealt with by a different way of looking at society and more reliance on private organizations, I think they're going to have a very difficult time because the government can't do everything; it really can't. And I think SARS was a great success from one perspective, but it was also a danger because it gave them the idea that through a government mobilization campaign they will be able to deal with any crisis that they face, and I think that's the wrong lesson to take from SARS. But I think that's the lesson that they are trying to take from SARS: they're trying to convince themselves, and that's a danger for them.

MS. ECONOMY: I would just say that for the environment, it actually has to be a combination of central and local initiative; it can't just be at the local level. That really is, in some ways, what China is trying to do, but then again, local environmental protection bureaus come under enormous pressure from other officials at the local level. If they come across a polluting factory and they want to fine the factory or shut the factory down, a local official may say, look, you're going to put 5,000, 10,000 people out of work; we simply can't afford that and we have no

other job opportunities. And so then environment protection loses out— and that's in the good case, when it's not a matter of straight corruption, where the local official is on the take from the company.

So there are these kinds of things that have to be negotiated. Without more pressure from the center to help enforce laws and without the development of the rule of law, I think you're not going to have the kind of progress that you want. It can't just be local initiative and private initiative; it has to be a much stronger central government effort to help enforce environmental protection.

MS. DAVIS: I guess I'm the outlier. I think that the problems I have discussed of income distribution and gross misspending on rural healthcare are examples of a diminished capacity of the central government and provincial governments' ability to plan. So, while there certainly is abuse and the government has many problems, if it were a better government – and that's what we also see trends toward – the situation would improve. Thus when talking about income in a market economy such as our own, pay is going to be determined by the market and by certain efficiencies. In a Chinese society where half the people still are farmers it is very hard to imagine the market solving entrenched poverty . In short China needs stronger, better government agencies to to devise a better tax system for redistributing the very, very great profits made in parts of the country where all the inputs are there and everything is booming along and redistributing them to the large minority who are unlikely to enjoy non-poverty wages in the short-term future. In short, unless there's that redistribution, which requires a government and a strong government and an honest government, a large portion of the next generation will be left behind for no other reason than they were born in the wrong place, and for me that's not acceptable.

MR. LIEBERTHAL: Thank you. We have time for one more brief question, if there is one. Yes? Yeah.

Q: Thank you. Alice Tepper Marlin, Social Accountability International. This is a question for Deborah Davis about migrants. And it's generally accepted that the migrants working in the factories in Shenzhen and Guangzhou work for a limited number of years, send money back to their families, but accumulate enough money to buy a home, start a small business, change their lives and go back to their communities. Are you aware of any longitudinal studies that establish whether those migrants who come to work for the factories and then go back to the rural communities – do they go back as quickly as expected, and what happens to them? Do they sink back into poverty or do they succeed in escaping from it? And secondarily, do you see any significant changes from the government in terms of according services and rights to the migrants while they're working at the factories?

MR. LIEBERTHAL: I have to ask for a very brief response.

MS. DAVIS: First on the impact of returning migrants, Rachel Murphy has a book from Cambridge, which is the first one I have read that studies the impact of returnees on their communities. I recommend it. Second one is on changing services and rights for migrant workers in industrial zones. First I would note that Shenzhen is unusual because it requires a domestic visa to get working papers and it's shared border with Hong Kong puts it in an unusual position. In

regard to Shenzhen, and more generally on the changing situation of industrial workers, I would draw your attention to another scholar, Ching-kwan Lee, who has worked on this topic and this year is a visiting fellow at the Wilson Center. Lee's dissertation compared factory conditions in Hong Kong and Shenzhen in an early period. She would be a great source, I think, for following through, and she's working on workers now. So I think in the Washington area, you have a great person.

MR. LIEBERTHAL: Thank you. Before we thank the panel, let me reiterate the announcements I made at the beginning. We will have lunch served directly out in the hall here. When you get your lunch you have a choice of either bringing it back in here or going to a room downstairs that is set up. That room also has a television. At 1:00, Fareed Zakaria will give his keynote address live here, by television down there. I hope you will all enjoy lunch and the talk.

MS. ECONOMY: And I have one other short announcement. I'm sad to report that Randy Shriver had to cancel at the last minute, but I'm very happy to report that our distinguished chair of this panel will step in and I'm sure admirably talk about U.S.-China relations, so we're very lucky that Ken is going to step in and take Randy's place in the panel later.

MR. LIEBERTHAL: Please join me in thanking this panel for a very distinguished – (applause).

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