



**Author Series
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**Ann Lee
Demos Senior Fellow**

What the US Can Learn from China

Patricia Ellis: Good afternoon everyone, and welcome. Thank you all so much for joining us today, especially on this very rainy day, for our Author Series event with Ann Lee, Demos Senior Fellow and author of *What the US Can Learn from China*, who will discuss her book and also discuss what to expect in terms of US–China relations in 2012. We’re pleased to be holding this event at Demos for the first time and want to thank them for their very warm hospitality. I’m Patricia Ellis, president of the Women’s Foreign Policy Group, which promotes women’s leadership and women’s voices on pressing international issues of the day, such as China. Things regarding China are always timely but they are especially timely right after President Obama’s State of the Union Address, where he announced the creation of a new trade enforcement unit tasked with investigating unfair trade practices in countries such as China. And, in just two weeks, President Obama and the new leader of China will be meeting in Washington to discuss bilateral, regional, and global relations at a time when there’s lots of tension in the relationship—tension that includes the value of the Chinese currency, China’s relations with Iran, the stepped-up US presence in the Asia–Pacific, to mention just a few. The Author Series is one of our favorite series and it’s very popular, and this is the third one we’ve done in New York recently. We had Robin Wright speaking about the Arab Spring, we had Pam Constable speaking about Pakistan, and today we’re very fortunate to have Ann Lee to deal with China. It gives me great pleasure to introduce our speaker, Ann Lee. As I mentioned, she’s a senior fellow at Demos. She focuses on international economics and finance. She was formally an investment banker and a hedge fund partner, and she is frequently a media commentator. She also is an adjunct professor of economics and finance at NYU, and also was a visiting professor at Peking University—and during that time, she acted as an advisor to Chinese economic officials as well as to several large Chinese asset management firms. Ann was educated at UC Berkeley, Princeton’s Woodrow Wilson School of International Affairs, and Harvard Business School. After Ann finishes speaking, we’ll go to Q&A which will be followed by a book signing. So please join me in welcoming our speaker, Ann Lee. [*Applause.*]

Ann Lee: Thank you Patricia for that very kind introduction. And thank you all for showing up to listen to such a serious topic, because I know that sex, money, and violence is what sells and, unfortunately, my book is missing all three. [*Laughter.*] But I am very humble to stand here and discuss my book with all of you. I’m often asked why did I write this book and the short answer is that I really cared about this country and I was very concerned about the direction that it was heading. This concern really started back in 2005 when I was still working on Wall Street, trading credit derivatives and bonds at a large hedge fund, and that was when I started to see the toxic assets that had caused the global financial crisis. It was already apparent as early as 2005 that the deals were very irregular and when I tried to raise the concern with regulators at the SEC, I was not received well—and so, when it became apparent to me that they weren’t going to do anything about it, that is when I decided to leave Wall Street because I felt that the financial markets were becoming much too risky and much too dangerous. Having seen previous bubbles during my career, I realized that this one was going to be much more extreme and more dangerous than the previous ones. So that was when I decided to go into academia and proceed to write and discuss some of the issues that I saw brewing throughout the financial

system, as well as some of the regulations that were not doing their jobs. And my work in academia brought me to Peking University, where I was teaching finance and economics in 2008 when the credit crisis started to unravel. And it was then that the Chinese government officials didn't have anyone to turn to. They didn't really know what was going on. And so, having had experience on Wall Street, I was invited to discuss and advise them on various issues. It was through this dialogue that I was able to get a lot of insights in terms of how they thought about their economy and how they approached the world. And so it's these insights that I want to share with you in this book. A lot of them I felt really were applicable, because if you recall, China was merely an agrarian society, a completely backwards society just 30 years ago. Then suddenly they became the second largest economy in the world. In fact, where they come from is so humbling because more people died of starvation under this communist party rule than people died in World War II. So what exactly did they do that allowed them to become so dynamic? I felt that these ideas would be translatable into other nations, to help the US become more dynamic again and many other places around the world. And although I understand that these two are very different countries, I'm suggesting that there are only elements that make sense because people are the same around the world, and what they did was that they were able to set aside their ideology that did not work for them and learn to incorporate very practical solutions to help them get the results that they were seeking. So this book is really about having an open mind, about not letting certain ideas and preconceived notions block us from being able to try out new ideas. And so even though this book covers a lot of different things about what China is doing—I know I don't have time to go into all of it, but I'd like to share a couple major themes that I think are particularly relevant in a presidential election year.

For one, I discuss the idea of needing more meritocracy in democracy. Today I would describe our nation as having a crisis of leadership, because poll after poll is showing that our politicians have very low approval ratings. *60 Minutes* recently announced that Congress has only a 9% approval rating—and it is no wonder that Occupy Wall Street has been spreading like wildfire. This is a very dangerous trend because, if the government is not seen as legitimate by enough of the people, it may be forced to resort to more drastic action to maintain the status quo. And we're already seeing signs of this—right? President Obama signed a bill into law New Year's Eve saying all Americans can be detained by the military without trial or evidence—this is very disconcerting and an incursion on our civil rights. Also, the recent news about SOPA and about being able to take down websites, also without necessarily having evidence or a trial. So, I believe more than ever, we need to get the right people in place in order to lead this country. And so, what can we learn from China in this regard, especially since many Americans think of China as a dictatorship? Well, that's not entirely accurate because oftentimes, when you ask people outside of China what they think of the leadership, they would say that China has the most sophisticated technocrats in the world. Even polls conducted by Pew Research within China show that Chinese citizens by over 80% approve of what their government is doing. So despite all the protests that we hear about what is going on in China? Why does the top leadership continue to get such legitimacy while the local leadership doesn't? I'll get into that.

So, in order to work in the central government in China, one must pass a competency exam by the time they're 35, and if you don't you must stay in the private sector. This is a way they try to limit the conflict of interest associated with revolving doors, and so this competency test is quite difficult. I've personally never seen it, but fewer than 20% of the people pass it—thus they attract a lot of top talent to go work for the government. After you enter government service, then you must rotate into different areas of the government and work for a term of five years, and you can only serve in no more than two terms. And it is through serving these different positions that they get evaluated to see if they get promoted or demoted. So, for instance if someone was appointed to be a university president, they would get evaluated on whether they were able to increase the number of graduates that got jobs after graduation or if they increase the number of foreign exchange programs with other schools around the world. So they would get measured on tangible results, where they get measured by a 360-degree survey à la McKinsey style. They have to do this for a lifetime of service, where they get evaluated for decades before they are considered for the top positions of government. And so it's very much analogous to a corporation where you don't elect a CEO to the top, but you promote someone after years of them

proving that they have the experience and the knowledge to lead an organization. This model is something that I thought there were elements that make sense for other nations. I'm not suggesting that someone go and work their way through government before they can be considered president of the US, but I am suggesting that perhaps we can borrow different things here to improve our own system of vetting our leaders—right? We don't test anyone in our government today except in the Foreign Service, where they must pass a Foreign Service exam to be an ambassador. Why not make sure that policy-makers that get appointed actually have the competence to take on those positions? Because today, we have a situation where, you know, to the winner go the spoils, so that whoever is, the president can appoint a lot of positions and they tend to go to people who have been great political donors for their campaigns or they owe other political favors to. So then we have situations where people like Michael Brown, who was appointed head of FEMA when Hurricane Katrina hit—and this is someone that had absolutely no experience in emergency management when he was heading that agency. And so if we can put them through harder scrutiny it would make sense. We do it in so many other professions—right? Because doctors have to pass medical boards, lawyers have to pass bar exams, architects have to pass exams to be licensed to practice. So this is not such an unusual idea. In fact, I'd say government is the exception to what really goes on throughout the private sector. Another idea is perhaps figuring out a way to restrict our revolving door. I am sure that we're not able to do what China does, but perhaps we need to have stricter restrictions on what is a common business model today—where congressmen can get elected for a couple terms, and then hang a shingle on K Street and earn millions as a lobbyist. This kind of conflict of interest hurts the common good, and what I'm suggesting is that perhaps we need to look at some of these structural items to reform that could align government more with the private sector.

Another idea I talk about in my book is the idea of having a long-term vision, because today I would say we're suffering from a disease called short-termism. We have government officials who think in terms of two-year election cycles. We have many corporations that feel pressure to meet short-term demands for profit from Wall Street. So not enough people are taking a step back and looking at the big picture and saying, "Wow! Where do we want our country to be in 10–20 years time and how are we going to get there?" Again, I turn to China for ideas of what they're doing because they have been able to institutionalize a way to deal with their tendency to want short-term solutions. This institutional program is called the Five-Year Plan, which oftentimes we ridicule because many times Americans associate that with what happened with Mao and the Soviet Union with central top-down planning, and think that this can't work. Well, I'm suggesting that the ways they practice the Five-Year Plan today is quite different from what they used to do. Today, they basically use it as a goal-setting exercise where they would put down what they want to do in five years time and have performance targets associated with every part of the economy. It's like a strategic plan where they will provide money for something and then they need to see a result. For instance, in the latest Five-Year Plan from 2011–2015, they say that they want to have a greener economy. How are they going to get there? Well they have a specific target where they say, "We are going to reduce carbon emissions by 17% per GDP unit. We're also going to reduce, or increase building efficiency and energy efficiency by 16% per GDP unit." Then the folks who are in those departments and tasked and responsible for it, they have the autonomy to come up with the solutions that would help them get there, by enlisting the entire private sector to help them through carrots and sticks. They can put tax hikes on dirty industries and then provide tax incentives for the clean tech industries. And already, many American companies and European companies are selling most of their technology in China in the clean tech area. Because of these incentives, China has been able to bring solar energy down [in price]. It used to be 22 times more expensive for solar technology rather than dirty industry, such as coal and oil. Today, solar technology is only 20% more expensive, and I imagine that within two years time, it will be cheaper than dirty technology. So it is through this performance measurement that they reach their longer-term goals. How does this translate into the United States? Well, the closest top-down situation that we have similar to the Five-Year Plan is the OMB budget. The OMB prepares a budget for the president outlining his priorities. The difference is that most of these agencies do not have performance targets associated with them. They may get a lot of taxpayer money, but then don't have to show any results in return. It's like a CEO that has a strategic plan, allocating money to different departments, and then not asking for any results—so it's like money

going into a black hole. This fuels lots of cynicism about government, which is why we see the Tea Party movement, because they associate government spending with corruption. We need to change that perception because the dialogue should not be about more or less government—it really should be about how to make government more effective. And so I'm suggesting that perhaps we can borrow this idea of having performance targets put in for different agencies, because we've seen how we spend more money on health care today than any other nation and yet our results are worse than other developed nations, right? We have lower life expectancy rates, higher infant mortality, and we spent trillions trying to jump-start unemployment and yet it's still excessively high. So we need to figure out how to align again the government with taxpayers and the citizens of this nation. I know we want to try and leave time for Q&A so I'm going to just try to wrap up here by suggesting that I understand that China does a lot of things wrong, so this book is not about advocating all things China at all. I even say in the preface that even my father was very much against China. He reminds me, he says, "Ann, if it weren't for the Communist Party, you'd be a billionaire right now because they seized all our assets." So if anything I should be bitter about this government, but what I'm saying is that we need to think ahead. We need to look at the future. We can't just finger point and think about the past, because that's not going to get us anywhere. Every nation has its weaknesses and strengths. And if we only dwell on the weaknesses, we're going to miss an opportunity to learn about what a country does right. And so I'll just close at that. Thank you. [Applause.]

Ms. Ellis: Okay, well I'm going to open things up with a few questions and basically turn it more to the foreign policy arena which will integrate some of the things that you were talking about. On the eve of the meeting of the future Chinese leader and President Obama, there are a lot of tensions in the relationship on the economic front—the currency issue, those kinds of issues—and internationally, as I mentioned earlier, the whole issue of Iran. China is Iran's top trading partner—it's the country that gets a large percentage of its oil from Iran. And now the US and the EU have been stepping up sanctions, and then we have one of the many issues, the increased presence of the United States in Asia. So those are just a few, so I'm just wondering—and plus there is the general perception that China does not play by the rules. So what I'd like to have you to talk to us about is both reality and perceptions. We all know in every relationship there are a lot of stereotypes so these are some real problems, but then there are issues that we perceive as problems, and they may not be real. Just to follow up, one other thing that's related to the big picture I'd like you to address—in order to sustain growth, China needs lots of energy. And I'd like you to talk about how that is a driving force in China's foreign policy and in terms of its relations with countries around the world such as Iran and other countries around the world that might cause friction with other Western countries.

Ms. Lee: Absolutely. So in my chapter titled "Soft Power" I discuss China's version of soft power, because when Joseph Nye wrote about it, he was talking about America's need to influence through softer measures—not rely on the military, but on influencing other nations through culture, through our shows, and through other ways that are not as tangible. China has gone about it in a slightly different way, in that they go around, because their belief is about actions speaking louder than words. Instead of putting out propaganda to different countries around the world, what they do is they do business deals with various nations around the world. So when they first went into Africa, they basically had a courting process where they spoke to the African leaders and tried to understand, "What do you really want?" and they tried to figure out a win-win solution. China obviously needs a lot of resources—in metals, in energy, and so forth—but they are not going in there plundering them like a colonial power would. What they're going in there and saying is, "So, we'd like to buy these, but in exchange, what do you need?" And oftentimes the African nations as well as Latin American nations would ask for infrastructure. So China, in exchange for resources, would build schools, build hospitals, build freeways and so, by doing this, the money that China puts in these countries doesn't go into some dictator's bank account. What it does is provide the infrastructure to enable these nations to also become dynamic and productive. And so today, Africa, after it's been written off as the lost continent by economists many years ago, is now seen as the most dynamic continent on Earth. It is because they are following the same development model in Africa as they did in China. And so, I believe that this is a kinder, gentler way of approaching foreign relations. Today, the United States has several hundred—hundreds!—of

military bases around world. China doesn't even have one. They go around trying to develop win-win situations and I think this is one of the misperceptions that a lot of Americans have, because China is not stealing resources. They're going and buying resources in exchange for their ability to help build up the infrastructure in other places.

Ms. Ellis: So what impact does the fact that China holds so much of American debt have on the relationship?

Ms. Lee: In fact, it's helped the US. A lot of Americans don't realize that, if China didn't exist, we could have had hyperinflation by now. Because if you look in the past, what happened to Germany before World War II and many other nations that continue to print money and you don't have the same level of productivity, you get hyperinflation. Today, because China is able to absorb so much of this, we've kept inflation pretty much at bay. This has been wonderful to United States because we've had low interest rates, we've had cheap goods coming out of China, and so this has made it a more friendly environment for our policy-makers to finally come up with right solutions to get this nation back on track. A lot of people think that, because China owns so much debt, they must be our banker and own us. That's absolutely not true, because they have no way of telling our Congress to stop spending. They have no ability to do that. The only thing they can do is just sell the debt if they want to—then they can sell it to the Federal Reserve, who today is the largest holder of US treasuries, not China. So to make an analogy, it's as if you had money and you need to decide where to park your money. You can park it at B of A [Bank of America] or you can park it at Citigroup. But you have no control to dictate to Citigroup or B of A what kind of interest rates that you're going to get. Same with China—they can park their money in US treasuries or Brazilian bonds or Russian bonds or whatever they want, but they have no negotiating power on this.

Ms. Ellis: Lately there have been a number of crackdowns on high-profile activists in China, and I'm just wondering if you could address the significance of this. And I was wondering, the use of the Internet has increased greatly in China and I'm wondering how this fits into the mix in terms of any internal response in China, not just from the outside.

Ms. Lee: Sure. China obviously was a very closed society before, so everything was state-controlled. All the corporations, all the media, and in the reform process of opening, they've actually allowed a lot of foreign media to come into the country. Today, they import hundreds of thousands of foreign books. Today they have tens of thousands of magazines and newspapers from other nations in China, and so they are becoming much more open in terms of their media. The fact that they have social media just like Twitter or Facebook—except they're called different things in China, called Weibo and others—it is very open in terms of dialogue that most of them have. Of course, the leaders—some of them—are very nervous about it, because they worry about subversion and other ideas, which is no different than the United States worrying about, say, al-Qaeda infiltrating here, right? If we knew there was an al-Qaeda website, we'd probably shut it down, so same with China. So they constantly worry about it and they are very nervous. However, I believe they will address this idea moving towards more elections and democracy. I forgot to mention in my speech that the corruption that happens mostly in the local level is with folks who don't enter into this central government service. They don't take government service exams. They don't get rotated around. They actually get stuck running a small town or province and they stay in there for 40 years, and that's where most of the corruption is happening. So the leaders are trying to figure out how to flush some of these people out by introducing elections at these town levels. And, what was the other question again?

Ms. Ellis: Well, it was about the activists and the recent crackdown on very high-profile activists.

Ms. Lee: Yes, like I said, I am not endorsing all things China. I know that China does some things wrong and I hope that they will become less insecure about their situation. But today China is going to focus more of their resources on maintaining stability within their country. More money goes into maintaining their police force than in all their military combined, because they're so much more

concerned about this rapid transition going on in China, which is dislocating a lot of people as you can imagine. So that is an area that they need to work on. Wen Jiabao, the current premier, has discussed this openly in public, and so I'm hopeful that they will make the right reforms once this new leadership comes into play.

Ms. Ellis: Just one more follow-up and we'll open it up to the audience. At the end of your book you talked about the media in China, and you had a chapter which talked about what things China can learn from the United States. And one of the things you talked about was that they need to learn how to communicate better and use the media and all that, and I'm just wondering if you can explain what you mean there.

Ms. Lee: Sure. And I mean even Pascal Lamy just spoke at Davos suggesting that China needs to improve their public relations and communications better with the West, because he is the head of the World Trade Organization and knows that a lot of these perceptions of China are wrong. Given that China is quickly growing still, China needs to develop the communication skills to explain to the West what their intentions are, why they're doing the things they are. Again, like I said, too many Chinese think that actions speak for themselves and that actions speak louder than words, so that often when they think their good intentions are understood, in fact they're misunderstood, so these misperceptions become reality and that is something that they need to learn.

Ms. Ellis: Okay, well we're going to go to the audience. There is a microphone here, it's going to be handheld. Okay so if you could just raise your hand, introduce yourself, and keep your questions brief. Okay, the gentleman over here.

Question: Dan O'Connor, and I'm actually running for US Congress here in New York, in Downtown. Chinatown's a huge part of my district, and I have 100,000 Chinese voters in my district. I lived in Chinatown and in China for six years. I speak the two major dialects and I've got a pretty good grasp of the culture. I certainly agree with a lot of what you said and your assessments, and a lot of your concerns I certainly agree with. I think that the US or Americans can learn a lot from Chinese. However, there are one or two things that caught my attention as you were speaking, and you talk about the US and you talk about electing better representatives and maybe criticizing them better. Unfortunately though, in the US the mainstream media controls most of the debate, they control most of the criticisms. And therefore, the media in the US is very much controlled. And this is a major problem that exists in this country. So this is something that I think deserves major attention, and this is something that you brought up. And the only other thing and I guess in terms of solutions, you brought attention to corruption and the corruption that exists in the US. There are a lot of great things in China that I acknowledge and that we can learn from them, but there's just as great of level of corruption there as there is here. And it is a very high level of the private sector and businesses in bed with the government, both here and in China. And myself having travelled to over 100 cities, 150 cities around the world, I find that this corruption exists just about everywhere, so therefore I'm not too optimistic on the notion of finding better bureaucrats.

Ms. Lee: Well, I agree that corruption is a problem, actually, in every nation and The World Bank actually had an official say this publicly. What I'm suggesting is let's try to find ways to improve our current system, right? There's always room for improvement and that's really my message. That yes, there's corruption over there and corruption here, but we are not a perfect nation either, right, and so as long as there is room for improvement let's work on that, and I'm suggesting that there are ideas outside our borders that actually may make sense, that could limit the level of corruption that currently exists. That's all I'm saying.

Ms. Ellis: Okay, other questions. Yes Pam, if you could go to the microphone, please.

Question: Pam Pelletreau, I am an independent researcher here in New York and a Foreign Service spouse. So I have to start by saying that some Foreign Service Officers attain the rank of Ambassador,

and some ambassadors are appointed through political means. I would like you to tell us a bit more about the background of the assumed or potential incoming Chinese government officials, what they have lived through in their life cycles, what kinds of jobs they have held as they have become prepared to take on higher positions.

Ms. Lee: Sure. Xi Jinping, who is the, I guess, biggest contender for the top position in China, came from a family with a revolutionary background. But even so, he's labeled a "princeling," which means that his parents had party affiliations. He still, as a young adult, worked in the fields and experienced very tough labor. So, he's very sympathetic to the poor in China, very much like the two current leaders. They both came from very poor backgrounds and actually had no affiliations politically with the party when they first started. So in that sense it is very much an even playing field where people get a fair shot as long as they perform and prove themselves. Xuan Xi's son, who I believe is probably the one who may replace Wen Jiabao, is someone who got educated here in the United States. He was one of the key people in reforming the banking system in China and he was involved in a lot of the strategic dialogues with Hank Paulsen under the Bush Administration. He's quite friendly to the West, very much sophisticated and understanding in modern finance. And so I think he would probably be a nice complement to Xi Jinping, who hasn't had that similar experience. And so I think that the other folks—mostly their backgrounds are in trying to reform their current government. So Bo Xilai for instance gets a lot of Western attention—he was known for cleaning up one of the provinces that was known to be very corrupt, and all the other previous people who came to this position were unable to clean it up because the local police and so forth were very good at covering it up. What he did was that he brought in his own very loyal people from the previous province he was governing into his current one, and then they did a sting operation where they were able to capture all the corrupt individuals and clean up the prostitution and the drug trafficking and all that practically overnight, and so he has become somewhat of a show pony in China. So, I can't recite all their resumes, but that's just sort of a flavor if that's helpful.

Ms. Ellis: Ann, in what areas do you think that the US and China can improve their relationship, what might be the basis for accommodation instead of just hearing about all the problems?

Ms. Lee: A friend of mine named Charles Kupchan wrote this book called *When Enemies Become Friends*, and he was following how England and the United States finally buried their differences and their hostility with each other to become great allies—and he says it really had nothing to do with economic partnerships, but more leadership at the top. It took the decisions of the people at the top to want to be friends that enabled nations to work cooperatively together. So it really starts with our leaders to start a friendly dialogue with each other in order for the US and China to come together, because if you're friends then you can basically resolve anything. You can agree to disagree about certain things or you can work together to find a solution that both sides can be happy with, but if you treat the other side as an enemy then there's no desire to negotiate, and today I worry that we over-rely on our military for all our diplomatic failures. What we need is to have stronger negotiators to come to the table and figure out where all those win-win opportunities are, and there are many. The Chinese, for the most part when I was there, really respect the United States, and really want to be friends with the United States—so we shouldn't be trying to bash them all the time and demonizing them, because that's not going to create the kind of atmosphere where we can arrive at diplomatic solutions.

Ms. Ellis: Okay yes, Ellen.

Question: Ellen Gorman from the Women's City Club of New York, and I have all kinds of questions swirling in my head at the moment. Let's start with, let me try some basic ones. Is it possible for a democratic society to elect such excellent technocratic leaders? Is it possible in China's economy to have had the kind of bubble and economic problems that we have now with the technocrats continuing to reign? And I'm also interested in to what extent the rule of law exists in China.

Ms. Lee: Sure, anything is possible in this world—I think we've seen that. *[Laughter.]* So regarding the rule of law, this is something very new to China. Let me give you an example. Tsinghua University didn't even put together a law school really until 1996, and so the number of lawyers in China is very few compared to the United States. We have roughly one lawyer to every 200 citizens here—they have about one to every 12,000, and so their legal system is quite embryonic, and it's going through growing pains like many other areas in their nation. So I would say that when there are lots of violations and so forth, give it time. Let them develop the skill set, the talent base to address some of these things. They are working on it, but this is a nation of over a billion people and they are trying to engineer so many changes at the same time, and therefore it is going to take time for them to develop a legal system that is comparable to ours. But it is in their Ten-Year Plan—so in addition to Five-Year Plans they have a Ten-Year Plan for talent development in which they say, we want to grow talent in different areas because they realize that the competitiveness of a nation depends on the talent within the nation. They realize the United States historically has been the best magnet for talent around the world, and China realizes that if they want to keep up their growth rate they need to also attract talent into their nation. So they go and try to recruit the top talent in law, in the arts, in social work, in everything, to come to China, where they pay them a competitive salary and provide them with housing and other benefits.

Ms. Ellis: Okay, we have time for a few more questions, so why don't you come up to the mic?

Question: Cindy Zheng from Brunswick Group. Thank you very much for your analysis, you certainly see a lot of good features of the Chinese system, which a lot of Chinese cannot see. My question is, based on your experience and your background, what do you think China can learn in terms of financial regulatory policies? Or do you think maybe the US should learn from China in terms of getting through the financial crisis to prevent future financial crises? Thank you.

Ms. Lee: Sure, thanks for that question. I have another chapter in my book called "The Real Economy First," which discusses the role of financial markets in economies, and what I basically suggest is that people too often confuse financial capital with trade capital, and because the financial markets are so strong they have overwhelmed the trading of real goods and services. For instance, today we have more turnover in our foreign exchange markets in two weeks time than all the goods and services produced in the entire world. So when you have financial capital that is so powerful because the large banks can create money simply by leverage and just hitting a computer keystroke, that can have a large negative impact on the real economy. Because of their ability to, say, influence exchange rates more so than actual trading of goods and services, then real companies can't actually establish the terms of trade, right? Because before we went to World War II, countries throughout Europe and the United States were engaged in competitive devaluation of their currencies, because they were all trying to gain a foothold in exports. Well, it would work if only one or two did it, but when everyone started doing it, it eliminated their advantage and not only that, it stopped world trade—it just completely sent it to a halt. So when people went to Bretton Woods right before World War II ended to come up with a new global financial system, they wanted first and foremost to not have volatility in foreign exchange markets. They basically said, "We want to have a world currency," but the US being the most powerful nation did not like that idea. The compromise was that they all agreed to peg their currencies to the US Dollar and then the US had to promise that they were going to peg the US Dollar to gold at \$35 USD an ounce. This way you would have complete stability over currency, but of course we have our current situation after the Nixon Shock, when Nixon unilaterally decided to un-peg the US dollar to gold, and so thus began the competitive devaluation again.

This could hurt world trade again, and what China's doing by pegging it to the Dollar actually is an anchor of stability. I've spoken to other central bankers, such as one from the Central Bank of Japan for instance, who say that when we attack China for their currency, it's like we are attacking the entire Asian-Pacific region. Because all of their operations are so tied together through offshore and outsourcing, if you cause one nation to change their currency dramatically or cause unnecessary volatility, it would hurt every country in the region. So in the interest of world trade and of enabling companies to continue to develop their goods and services, it would be important to restrict their

financial markets so that they are not overwhelmed. Of course they produce a good service by allocating capital, but when they become too powerful then the capital allocation is going to malfunction.

Ms. Ellis: Is it—oh go ahead. While you are going to the mic, I'm just going to ask you quickly—there has been some talk about a real estate bubble in China and also growing inflation, and the economy has slowed down a little bit, and if you could just address the implications of that for United States and the rest of the world.

Ms. Lee: Sure, sure, I know the real estate bubble has been getting a lot of attention from people around the world. I think that it's overstated. China understood that real estate prices were going up, were appreciating too quickly, largely because they don't have as many places for big savers to park their assets, right? They could either put them in bank accounts that get almost no interest rates, they could put it in their stock market, or they could put it in real estate, and pretty much that's it. And so when there are people that have large savings, they figured they would just park it into real estate because that is the most stable. Chinese real estate has no real estate tax because people don't really own the real estate. The state owns the actual underlying land, and so you can't tax yourself on the land, and therefore that's why there was such a real estate boom in China, but it's not like what happened here. Obviously the Chinese learned that sub-prime is bad, so while we have people put no money down on mortgages, in China they require 60% down payments. So even if the prices came down, they have such a large equity cushion for the banks that it's not going to collapse them. Like I said when I addressed concerns about developers, these developers—even if they walked away, the Chinese government has all these buildings as collateral. Given that they have to build a hundred million more units in the next ten years, they can turn all this into low income housing, which they have to build anyways, and therefore I think the real estate bubble is overrated. The real estate has—the slowdown has been engineered by the government actually, and so if they decide to take the brakes off I have no doubt those real estate prices will start to go up again.

Question: Thank you very much, I think that definitely you see a lot of very positive side of the Chinese. Actually as Chinese, we see a lot of challenges for the development. One of the top things if you look to the past 20 years, what really drives the economic growth is actually the state-owned entities. If you are looking to the total growth at this moment, the Chinese government, state-owned entities drives more than 70% or 80% of the total growth, so there are certain drawbacks eliminated. In addition, it created the inequity, and it's also government controlled economy rather than free trade economy. So talking about what US could learn from China in that perspective, by living and working here I also understand that this is a popular model which is majority government-controlled economy, so in this regard I would very much like to hear your point of view.

Ms. Lee: Absolutely, I am not suggesting that that is a better model—I was suggesting that China was able to get out of their quagmire by incorporating the best of the West into their model so that they could become dynamic. If they went backwards and went straight to “everything is government controlled,” then it's not a market economy and then they will suffer. I say, in fact, in the last chapter in my book, that what China can learn from the US is that they need to respect variety. If they don't then you are going to have a nation of bricks as opposed to a nation of all kinds of stones and pebbles that would make a nation more interesting and more sustainable in the future, and so I don't endorse having everything driven by state-owned. I think government leaders recognize that, which is why they are working hard to develop more small- and medium-sized banks to deal with the small- and medium-sized entrepreneurs and other folks. And so yes, I think that China has a lot of growing pains, they need to continue to reform, otherwise their whole economy will be derailed as well.

Ms. Ellis: Okay, we have our last question.

Question: Thank you very much, my name is Ambassador Josephine Ojiambo from the Kenyan Mission to the United Nations.

Ms. Ellis: Welcome.

Question: I want to thank the Women's Foreign Policy Group for the very, very comprehensive discussion we've had this afternoon, and mine would be to amplify a few of the remarks our guest speaker has actually shared with us, but from a multilateral perspective. I'd like to reflect on what we call South-South and Triangular Collaboration at the United Nations, and suffice to say that Kenya, my country, is president of the high level committee on South-South and Triangular Cooperation. But what's important about it is that this form of cooperation on a multilateral level has China's full participation, and that it goes beyond what we have heard you mention as bilateral settings where China supports the economies of the global south, to settings where best practices are shared, documented, and replicated amongst the member states of the global south requiring little, if at all, investment from the north and even from China itself in terms of spreading development models that work. In particular from the United Nations perspective, the attainment of the MDGs [Millennium Development Goals] in the global south would only be possible if countries in the south were able to get up and share those practices. Now I bring this to our discussions because you spoke about the relationships between China and some of the developing world economies, and I think it is important that we share this, and also share it in a perspective where, indeed the US can learn from that form of collaborative support in the developing world. But beyond that, something that we have done for the global south is the contribution of a creative economy towards solving some of the problems we've seen as a result of the global financial crisis. I don't know how much you know about the creative economy, but we know from data that over the last five to eight years—whereas, because of the financial crisis, the growth rate of economies has dipped but the contribution of the creative economy continues to grow in the same time period. China is investing a lot in the creative economy, perhaps you want to share a bit about this too? Thank you.

Ms. Lee: Sure, thank you for your remarks. Yes, China is aggressively investing in the creative economy and innovation.

Ms. Ellis: Do you want to define creative economy?

Ms. Lee: Meaning that it is reliant on creativity, something that is not rote, something that is difficult to replace by a machine—that is I guess a close definition. What China is trying to do is that they are creating technology incubators throughout their nation that simulates what happens in Silicon Valley here, and what they do is that they will provide free room and board, compensation, supermarkets, schools nearby for these entrepreneurs who want to work and dedicate their lives to coming up with disruptive research and disruptive innovation in order to power the economy forward in to the 21st century. Today we have lots of people with great ideas and yet they don't get financing here, most venture capitalists would rather finance a social media company because there is a quicker profit return, and so someone that has other research that could be completely unproven and really out-of-the-box thinking may not get funded. China recognizes this and is trying to create the space so that people can do that, so that people don't have to worry about making a daily living in order to conduct their research—which can last years or decades before they have a breakthrough, and so that is how they are investing in the creative economy.

Ms. Ellis: Okay, well I just want to thank Ann Lee so much for helping us understand more about China today, and thank you all for coming. Thank you for your good questions, we will see you next time. Ann will be signing her book outside. Thank you again. *[Applause.]*