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Intelligence Squared U.S. Unresolved: The Techonomic Cold War with China

Host & Moderator:

John Donovan

Debaters:

Ian Bremmer, Michèle Flournoy, Yasheng Huang, Parag Khanna & Susan Thornton

00:00:00

[applause]

China, China. The economic success story of our generation, and a nation whose leader has announced a huge ambition for his nation. It is time, he said, to take center stage in the world.

We have to -- China a number of times with Intelligence Squared, frankly as a rival to an America that likes to see itself on such a stage. This time, though, we want to take on China's soaring status as a power across several dimensions: its desire to be first in artificial intelligence, its use of questionable trade practices, and espionage to get out in front of Silicon Valley, and its undertaking to create a new Chinese-made global economic infrastructure through which all roads will lead back to China. There is so much to discuss here that, for this topic, we are using our unresolved format. That's where five debaters, each flying solo, says, "Yes," or, "No," to a series of three different resolutions, one after the other.

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In other words, instead of one debate, we are doing three right in a row. Our resolution -- our topic is this, "Unresolved: The Techonomic Cold War with China." I'm John Donovan. We are here with a live audience in Symphony Space in New York City for this debate. Our debaters include the following, and please welcome them, starting with, ladies and gentlemen, Ian Bremmer.

[applause]

Ian, welcome back to Intelligence Squared. We think you may be our most experienced debater so far. You are president and founder of Eurasia Group, and G0 Media. You are also a best-selling author, most recently of the book, "Us Versus Them: The Failure of

Globalism." Eurasia Group annually publishes a top list of global threats. The 2019 list is out. There's a lot in there that we're going to touch on tonight, but one of the 2019 top global threats you listed is the U.S. at home, meaning what?

Ian Bremmer:

Well, not related to tonight's debate topic.

00:02:00

I guess I would say that the good news about being the world's most powerful country is that no one can damage us as much as we can damage ourselves. Turns out that's also the bad news.

John Donovan:

All right. Ladies and gentlemen, Ian Bremmer.

[applause]

And please welcome our next debater, Michele Flournoy.

[applause]

Michele, welcome back to Intelligence Squared.

Michele Flournoy:

Thank you.

John Donovan:

You were Undersecretary of Defense for policy under President Obama, and the principle advisor to the Secretary of Defense. You have cofounded the center for a new American security, and now you have cofounded WestExec. What does WestExec do?

Michele Flournoy:

So WestExec Advisors is a strategic advisory firm comprised of recently former senior officials from the U.S. government. And we advise companies, and investors, and tech firms on geopolitical risk overseas, and also navigating the national security market here in the U.S.

00:02:58

John Donovan:

Thank you, ladies and gentlemen. Michele Flournoy.

[applause]

Our next debater, please welcome Yasheng Huang.

[applause]

Yasheng, welcome. First time at Intelligence Squared. You are a professor of political economy at MIT. You are the author of several books in English and in Chinese, including, "Capitalism with Chinese Characteristics."

You founded and now lead the China lab and the India lab at MIT. Tell us a little bit about -- what do you actually do there?

Yasheng Huang:

Yeah, so it's actually a course at the MIT school of management. We use our very talented students to work with more immediate entrepreneurs in China and India. Since its founding in 2008, we have worked with 350 entrepreneurs in both countries.

John Donovan:

Okay, great experience for tonight's debate. Again, ladies and gentlemen, Yasheng Huang. Next in the lineup, please welcome Parag Khanna.

[applause]

Parag, welcome to Intelligence Squared U.S.

00:03:59

You are the founder and managing partner of FutureMap. That's a strategic advisory firm. You're a best-selling author. In fact, you have a new book out. Its title, quite relevant tonight, "The Future is Asian: Commerce, Conflict, and Culture in the 21st Century." The 20-second version of what that book's about?

Parag Khanna:

Sure, "The Future is Asian," is a book about what I call the Asian system, which includes China, but also the other 3.5 billion Asians who are not Chinese, and how they're together resurrecting the ancient Silk Road to create a new diplomatic and economic order, and how that's reshaping the world.

John Donovan:

Thank you, Parag Khanna.

[applause]

And, completing the lineup, please welcome Susan Thornton.

[applause]

Hi, Susan. You're a senior fellow at the Yale University Paul Tsai China Center. Before that, you were the acting assistant secretary for East Asian and Pacific Affairs at the State Department. You have been in the Foreign Service for 28 years. You speak a few languages, I understand?

00:05:00

Such as?

Susan Thornton:

Yes, I speak a few languages. I took French until I got bored, and then I started studying Russian in high school and college. And then I thought, after I did -- done with that for a while, I'd study Chinese to be -- make myself really miserable. And now you know why the FBI takes such an interest in me during my security --

[laughter]

John Donovan:

Susan Thornton, thank you, and thank you to all of our debaters for taking part. I have one more reminder to those of you who have arrived perhaps in the last few minutes and haven't yet cast your pre-debate vote. To cast your vote, use your smartphone; go to IQ2US.org/vote, using any mobile device. There are three resolutions: the next Silicon Valley will be in China; the Belt-and-Road initiative is a trillion-dollar blunder; the U.S. and China will both lose the trade war. You have the choice of yes or no on all of those. So, let's get to our debate. The way that this is going to work is that each -- we -- on each resolution, each debater is given 90 seconds to make an opening statement supporting his or her position on the resolution. After those -- that round of 90-second statements from each debater, we move on to a round of more freewheeling discussion to dig in more deeply.

We are going to pick our speaking order randomly thanks to these Intelligence Square playing cards. So, our first debater will be Michèle Flournoy.

00:05:55

Michèle Flournoy, on the resolution The Next Silicon Valley Will Be in China, how do you declare, yes or no?

Michele Flournoy:

I declare yes.

John Donovan:

You have 90 seconds to make your argument.

Michele Flournoy:

I declare yes because China sees itself in a strategic competition with the United States, both economic and military, and it is doing everything in its power to eliminate our technological edge.

China has a clear plan and is making massive investments in cutting-edge technologies. Beijing's five-year plan -- its most recent one -- focuses research and development on a number of technology areas, including things like aerospace engines, satellites, artificial intelligence, and quantum computing. Its annual research and development spending has increased by 71 percent over the last five years, and its defense spending has tripled in the last 10 years. It has established a doctrine of civil-military fusion, which means any advancements made by private companies in China have to be shared with the Chinese military.

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And it's undertaken a massive and sustained campaign of cybertheft of our intellectual capital, our property, totaling hundreds of millions of dollars. If you look at its investment in the fundamentals of an innovation ecosystem, those are strong, too.

People; China has 4.7 million recent STEM graduates -- that's graduates in science, technology, engineering, and math -- versus about half a million in the U.S. Funding; China's share of venture capital funding globally is now roughly on par with that of the U.S. And access to data; they have 800 million internet users --

John Donovan:

I'm sorry, Michèle, your time is up.

Michele Flournoy:

Thank you.

John Donovan:

Thank you very much. On the resolution -- and the way we go is to the left of the speaker -- is how the order moves, and so we're going to move next to Yasheng Huang. Yasheng Huang, on the resolution The Next Silicon Valley Will Be in China, how do you declare, yes or no?

00:07:58

Yasheng Huang:

I declare yes.

John Donovan:
You have 90 seconds.

Yasheng Huang:
I not only declare yes, I actually know where that Silicon Valley is going to be located.

[laughter]

Yasheng Huang:
It is going to be in the city of Shenzhen, across from Hong Kong. I second very much what Michèle had said about these developments at a national level. At the local level in that region, Shenzhen is actually very similar to Silicon Valley.

It is an immigrant city; it draws talent from the rest of the country, as well as from the rest of the world. We have had a number of graduates from MIT who have started enterprises in that region, and they have done extremely well in terms of incorporating technology into production. The other thing that we need to be mindful is time and technology are a function of creativity, talent, and the intelligence, but they are also extremely expensive and costly.

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At a time when this country is not investing in science and technology, somebody else has to do it, and so far, it is China that has been investing very heavily in science and technology. They're producing all these great graduates, and then, if you look at IT, yes, it is true that there's a problematic situation in their country.

It is improving. But the other thing is that the new area is data. IT is not as important in big data as it is in other areas.

John Donovan:
I'm sorry. Time is up. Thank you very much. Our next speaker will be Parag Khanna, on the resolution: "The Next Silicon Valley Will be in China." How do you declare: yes or no?

Parag Khanna:
Yes.

John Donovan:
Ninety seconds.

Parag Khanna:
I vote "Yes," but I should have voted no because you got the tense wrong. China already has the next Silicon Valley, not will be. If you think about it, China already has half the world's most valuable companies. It already leads in augmented reality, artificial intelligence, autonomous vehicles, drones, mobile apps, 5G, and even bike-sharing.

00:09:53

When I pull out my iPhone, millennials in Asia laugh at me. They think it's garbage compared to the Xiaomi phones that they use that have 40 megapixel cameras, batteries that last for two days, and are actually waterproof. They have the venture capital market, as Michele mentioned. Some of the world's largest IPOs. Last year, the Hong Kong Stock Exchange beat out the New York Stock Exchange for the number of IPOs. You have government support, of course, that was also mentioned. Just like Silicon Valley has its origins in support from the defense sector of the United States, so too, of course, does China. The Made in China 2025 campaign is only going to accelerate in the wake of the trade wars. They seek to protect themselves from any technology areas where the U.S. wants to cut off supplies.

And remember that Silicon Valley was primarily supported with American money. But today, if you look at China's technology sector, it's supported by global companies and even Japanese firms, like SoftBank, which gave AliBaba its start, and it's also poured money into other Chinese companies, like Anh [spelled phonetically] Financial.

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Sovereign wealth funds from around the world also investing in Chinese tech. So, why is China already the next Silicon Valley? Because both China and the rest of the world have made it that way.

John Donovan:

Thank you very much. In time, by the way. Thank you very much. Susan Thornton, on the resolution, "The Next Silicon Valley Will Be in China," how do you declare?

Susan Thornton:

Well, it falls to me to declare no.

John Donovan:

Thank you.

[laughter]

You have 90 seconds.

Susan Thornton:

Of course, I'm going to have to use some qualifiers, because these are strong arguments. But it strikes me that the U.S. has gone in a 180-degree shift from being confident in our capitalist, market-oriented, you know, innovation ecosystem, to being very, very worried and afraid. And you know, we talked a little bit -- Bob did earlier -- about our systems differences. I think -- you

know, Silicon Valley is not in California. It's not in China. It's a state of mind. You know that 75 percent of the tech workers in Silicon Valley are foreign born.

You're not going to get that kind of an ecosystem in China. You're not going to get in Shenjiang.

00:12:00

You're not going to get it in Hong Kong, Guangzhou, and in Beijing, where all the universities are. China is starting to close down for its intellectual space. University professors are being told what they can and can't teach. Students are feeling more inhibited about what they can study. And I think there's still a long way to go for China, to get to be the next Silicon Valley. They've spent decades trying to build an airplane and haven't been able to produce one yet. So, there are limitations. There are problems, obviously, with the ecosystem there. Now, it's not to say that we should count them out. They're certainly starting to go further up the innovation ladder. I think this shows why the U.S. has to pour more money into basic research funding. And we should keep our country open to all kinds of foreign-born geniuses, and not just stable geniuses.

[applause]

John Donvan:

Thank you, Susan Thornton. One more opening statement to go on this resolution: "The Next Silicon Valley Will be in China." Ian Bremmer, how do you declare? Yes or no?

00:12:57

Ian Bremmer:

Yeah. I'm going to declare "Yes." But it's not because I'm convinced the Chinese are going to win; it's just because if there is a next Silicon Valley, it's obviously in China. You know, you look at the big \$1 billion startups -- the tech unicorns, such as they are. Forty-two percent of those in the world today are in the United States in 2018. Forty percent are in China. The rest of the world gets the remaining 18 percent. That's it. So, it's pretty obvious, right? If you want to look at where the big technological developments are coming from, they're coming from the Americans and they're coming from the Chinese.

Now, to be fair, a lot of that investment is not coming from the entrepreneurs in China; it's coming from the state. And the reason that they are getting advantages right now in places like voice recognition, facial recognition, as Parag mentioned, is not because they have better scientists; it's because they have more data. So, it's not at all clear, in five, 10 years, is AI and technology going to look like the space race, where it's the government versus the government, which means China wins -- or does it look more like all of these entrepreneurs doing moon shots, most of which fail -- some of which are tremendous -- in which case the Americans win.

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But whoever you decide to pick, the next Silicon Valley, indeed, already is in China.

John Donovan:

Thank you, Ian Bremmer. Now we move on to -- question round of about 13 to 14 minutes. And, in this round, we have four yesses and one no on the resolution, "The Next Silicon Valley Will Be in China." And the arguments, basically, on the, "Yes," side come down to the fact that having Silicon Valley, being this kind of leader globally is what China wants. It's what China is working on. It's what China is putting a huge effort into. It's what is educating its students to do. It's what its entrepreneurs are working on. It's what their -- it's the focus of their depth of intellectual property for the last many years. The argument against, and that's coming exclusively, in this case, from Susan Thornton. So, Susan, that means you're going to be doing a lot more talking in this round.

00:15:00

Susan Thornton:

I guess so.

John Donovan:

The argument against has to do, you say, largely with the culture, that China is shutting down. Its political shutdown is, I think you're arguing, basically is a deterrent to innovation and sharing of ideas, and that -- and that --

Susan Thornton:

And also, status, economic top-down kind of direction.

John Donovan:

So, continue with that thought, and let's let your opponents -- your temporary opponents respond to some of what you were saying.

Susan Thornton:

Okay, yeah. I mean, so I think basically, you know, we've been through this before with the end of history in 1991, governments trying to pick winners and losers, and that didn't work out too well. I think the Chinese have, you know, come a long way in trying to develop and marketize a lot of the parts of their economy, but they don't still have the ability to support their bottom-up entrepreneurs.

I mean, Jack Ma was basically made to step down from Alibaba. If private entrepreneurs get to be too prominent in the Chinese system, they will not be allowed to go further.

00:15:56

Private entrepreneurs have been arrested under the anti-corruption campaign, and there was a big article yesterday talking about many entrepreneurs in China who are trying to leave. And a lot of Chinese are trying to move their money out, so the political retrenchment that we're seeing in China is having an effect on the overall future picture for China's development.

John Donovan:

Let me let Michele Flournoy respond to some of that, and then I think basically the argument from Susan Thornton is that China is going to trip over its own feet on this.

Michele Flournoy:

I think Susan's right in that -- to the extent that China's intent to become the technological leader is thwarted, it will be their own government's fault. It will be the government getting in the way of itself and of its own policies. But I think that, you know, we had it in our mind that true innovation happens in our Silicon Valley. It's the moonshots. It's having the benefit of the best research in universities, entrepreneurs who can go after something that nobody ever thought of before.

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It's that creative process of discovery, whereas China's been excellent at the applications, once something's established, applying it in 1,000 different ways and sort of making progress that way. But I don't think that stereotype is holding. If you look at -- in 2017, the number of patents and patent applications for AI-related issues -- four times as many in China than in the United States. So, there's some kind of shift going on here. And again, I agree the biggest threat is the Chinese government's own policies to -- that could undermine itself. But right now, in terms of intent, and resources, and momentum, China does have an advantage.

John Donovan:

Susan, your response to that?

Susan Thornton:

Well, they do have 30,000 engineers waiting to work in whatever plant moves over there. So, there are some inherent advantages that they have. And, like I said, they have managed to innovate, but they -- I mean, I guess it maybe hinges on the definition of Silicon Valley. I mean, Silicon Valley is these moonshots.

00:18:00

It's not this incremental innovation, and so I think they're -- you know, the Chinese say they have a built-in advantage of marketization and scaling. They want the innovation to come from the U.S., from Silicon Valley. That's what they talk about, and they'll do the scaling up. I mean, you figure out who makes the money in that scenario. I think that's something we need to worry about, but I do think there's a qualitative difference in the kinds of innovation that you're talking about.

And so, I think Silicon Valley is not going to be replicated in China. Now, Shin Jung is a logistics hub for almost everything that happens in the tech sector, and that also can't be replicated in the U.S. So, I'm very worried, actually, about this fragmentation, this economic cold war, which is the title of our piece, because I don't really see how these things can be separated.

John Donovan:
Ian Bremmer.

Ian Bremmer:

Well, first of all, you do have big companies like Microsoft and Google that desperately want to maintain, you know, sort of lab work jointly with the Chinese, because they find that the level of innovation and cutting edge support that they're getting there is very important.

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They don't want the Americans to be in a position where they suddenly cut that off. But the other thing I would just ask is, "Is Silicon Valley really as entrepreneurial and moonshot-like as it used to be?" I mean, we're talking about some behemoth companies that are acting like functional monopolies. They're capturing the regulatory environment.

Once they get, you know, real-scale, then suddenly they start acting -- state cap is one of the reasons there's so much tech-lash going on in the United States. So, you know, I think it -- no question that there's extraordinary entrepreneurship in the companies that are still being started in garages that have ideas that the Chinese aren't themselves developing. But if we really ask ourselves what Silicon Valley is today, I think it's not quite what we continue to do our screenplays about.

John Donovan:
Yasheng?

Yasheng Huang:

Well, let's remember that the political repression is all on the social scientists in China.

00:20:00

It's not scientists, engineers, and technologists. In fact, I would argue that Chinese scientists and technologists enjoy far more academic freedom than their counterparts in the United States.

In this country, we the problems of trying to do research in stem cell research -- right? Stem cell area. And in China, they have just come up with a CRISPR technology application, genetically edited babies. I'm not advocating that, but this is an example to show that the political treatment of social scientists and political treatment of natural scientists are

fundamentally different. There's a famous book called Lonely Ideas that documents the inventions in the former Soviet Union. The Soviet Union actually invented all of these ideas and made tremendous technological breakthroughs. What they failed to do was connect those inventions to economic development. China is able to do that, to do both the inventions as well as connections to economic growth.

00:20:54

John Donovan:

I want to bring Parag into the conversation, but before we do, just because Susan Thornton since you're the one on the barricades here -- a chance to respond.

Just -- if you can do it in 20 seconds to the points that you're --

Susan Thornton:

Well, I mean, I think I agree with Yasheng, what he's saying about the political repression mostly being on the social scientist side, but --

John Donovan:

But does that have impact?

Susan Thornton:

But I think there's still an effect of this overall controlling top-down mentality that the government has in the economy, in resource allocation, in the system of local government and the tax collection. I mean, it kind of permeates the entire system.

John Donovan:

And what about Ian's point? It's not exactly on point, but I think it's an interesting context point -- Ian's point that our Silicon Valley is not so wonderful, entrepreneurial itself.

Susan Thornton:

Well, I mean, it is true that Chinese work very hard, whether they're in social sciences or natural sciences, and we've -- you know, we all have seen people who keep a bedroll under their desk in the office in case they have to sleep overnight.

00:21:58

They have this 9-9-6 work schedule where you have to work from 9:00 a.m. to 9:00 p.m. six days a week, and you get one day off on Sunday, so that is a concern for sure.

Male Speaker:

Yeah.

Susan Thornton:
You could step it up.

Male Speaker:

I think there's -- building off Ian's point, there's a more mundane story of how Silicon Valley got to be what it is. You can't just summarize it as moonshots. What it is, is a process where the first-generation entrepreneurs who generated wealth through successful companies actually feared that wealth with the engineers who they work with, and then those engineers spun off and started their own companies. And the genie is actually out of the bottle in China with whatever, taking into account -- whatever political repression there may be on social scientists more. The technologists have already moved forward, and you can see that happening with those that have left Alibaba and Sunset [spelled phonetically] and now gone off to spawn five, 10 other sets of companies in FinTech and, you know, EdTech and a whole bunch of other areas.

So, we can't really pretend that it's just about these, you know, vertical [unintelligible]. One other thing: the proof of that is the venture capital market. The global venture capital market is \$150 billion a year, and China now represents an equal share of that to the United States.

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That simply could not be the case if you did not have hundreds of very wealthy Chinese entrepreneurs who came out of that first generation of companies now investing in the next generation.

John Donovan:

In terms of the innovation that a Silicon Valley in China would require, one of the premises of the trade war we're now is that China has sustained its progress on the back of intellectual property.

Male Speaker:
Yeah.

John Donovan:

My question is, does that dependence on intellectual property theft state that China is not yet ready to innovate on its own, or are we past that point? Michele?

Michele Flournoy:

We are now past that point. I mean, the two coexist. There are still hundreds of millions of dollars estimated as intellectual property theft that continues to happen each year, Chinese entities stealing from American entities.

That said, you also have examples of real innovation and real startups and creativity happening, funded by venture capital in China. So, the two are coexisting, but the intellectual property theft has not stopped. It continues.

00:23:56

John Donovan:

But it doesn't mean that they don't know how to innovate on their own?

Michele Flournoy:

It means that in some areas they're getting a boost [laughs], and they've had trouble -- where they've had trouble innovating, they see -- they've tried to get a leap ahead or a leg up by starting with some proven designs and plans.

John Donovan:

One of the issues that's cooking around this is that China's lead in artificial intelligence that it's working on, and 5G -- comes with the idea that this technology is being deployed by the Chinese, essentially, to act as a system of Big Brother, to spy on its people. And my question is, does that kind of technology have a global market? Because there are places that are dying to have that -- or, you would think that, in this country -- you would think, in Western Europe, that that would be anathema and that that would militate against China's ability to be its own Silicon Valley. Who would like to take that? Ian Bremmer.

Ian Bremmer:

There are places that are dying to have it. There's also places that are killing to have it, right? And that's, I think, part of the issue.

00:25:01

We've talked about how the United States and China have different systems, in terms of who's able to develop technology. We haven't talked about how technology itself is changing. Let's keep in mind -- you know, 10 years ago, 15 years ago, 20 years ago, when you were talking about big breakthroughs in technology, you were talking about the communications revolution.

You wouldn't have been showing the Matrix behind the screen, here. You'd be showing someone on a smartphone, and you'd show, you know, sort of -- you know, thousands and thousands of people in Tahrir Square -- in Egypt -- or the Orange Revolution, or the Rose Revolution, bringing down authoritarian regimes. Today, when you talk about technology and advances, you are talking about enormous top-down, vertically-integrated organizations, either companies or governments. And they're using big data to engage in surveillance. They're using that to make enormous amounts of money, and also to ensure greater political harmonization and in their own top-down civic society. I think that is a place where the Chinese actually have a significant advantage over the Americans. And it is going to change the way we think about Silicon Valley.

00:25:54

John Donovan:

Susan Thornton? Again, I'll remind you, you are our sole no vote on this one.

[laughter]

Susan Thornton:

I just want to make the point the most of these technologies are dual-use. We were looking, at Yale, at sort of the export of surveillance cameras, and other kinds of systems, and to the Middle East, and found out that most of the exports to the Middle East are coming from U.S. companies. There's a story out about police in China are exporting DNA sequencers. You know, but police in China are using those DNA sequencers to find out that people who had been put in prison 20 years ago have now been exonerated because they were not the perpetrator. They have a problem with forced confessions in China. So, you can use them for good or ill. If you're using it in Xinjiang, obviously, it's terrible, and heinous, and we should be very upset about that. But the technologies themselves aren't the problem. It's what the governments are doing with them and how you attack that. And I think that point needs to be clear, because we have a lot of companies that are making similar types of equipment.

00:26:56

John Donovan:

Yasheng.

Yasheng Huang:

China is an authoritarian country, authoritarian society. The government doesn't have big data. They have other tools to control the population. In fact, if you look at the population control program, it was extremely effective and successful, in terms of curtailing the fertility rate, without any use of the big data and the technology. So, I think this idea that, somehow, China suddenly has become a Big Brother country as a result of Big Data, that's just misplaced. It has been an authoritarian country for the last 2,000 years without the big data. And we also need to distinguish between access to data and the application of the data.

All the applications of the big data have been the result of companies such as AliBaba, Ahn Financial, and Tensen. But in China, the government has special access to this data. So, you can make technology available to other countries that have privacy protections, that have restrictions on the ability of the government to gain access to the data, without involving the technology itself.

John Donovan:

Parag, can you educate people in 20 seconds on the firm Huawei and tell us how it fits into this argument?

Parag Khanna:

So, Huawei, as many people know, has, certainly, origins and still strong links to the Chinese government. It is the leader and it is now -- has the largest share, probably, in the world, of the global telecommunications hardware and equipment market. But that only amounts to 30 something percent. And now, that it's exporting those technologies and implementing -- installing fiber optic cables, Internet hardware, telecom stuff -- sort of all over the world -- there's pushback against it. At least five or six countries now have now banned Huawei from installing that equipment in their countries. And there's --

John Donovan:

So, given its promise and given what's happened to it, does that support Susan Thornton's opposition to the idea of Silicon Valley happening in China?

Parag Khanna:

No, because it's not the only company in the field that China has. It's obviously the leader.

00:27:59

But -- and we no longer even make -- and this is one of the critical areas that -- where Shenzhen comes in, in terms of hardware -- the United States has almost given up on hardware in some of these areas. So, only China -- Chinese companies even make some of the critical hardwares that relate to 5G technologies -- or some European companies do as well, but not American ones anymore.

John Donovan:

Well --

Female Speaker:

Huawei is the only company that makes every single component of the 5G system across the spectrum. It's the world leader, so --

John Donovan:

Well, that actually concludes discussion on this resolution. Thank you very much -- where the resolution --

[applause] --

John Donovan:

-- has been, "The Next Silicon Valley Will Be in China." And a reminder of where we are; we have five panelists at this Intelligence Squared U.S. Debate, debating a series of motions on the techonomic cold war with China. I'm John Donovan, your host and moderator. Now we move on to our second resolution. The second resolution, "The Belt and Road Initiative Is a Trillion Dollar Blunder." Also known as one belt, one road, this is China's push to create this -- direct

infrastructure connections between China and large parts of Eurasia, Africa, and South America. It is already underway, but will it pay off for China?

00:29:00

That is the question we are asking. I'm going to again go to a member of the audience to choose a speaking order. Can you do this for me, please? Usually people swamp the stage, desperate to play this game of chance. Thank you. On the resolution, "The Belt and Road Initiative Is a Trillion Dollar Blunder," our first speaker is Ian Bremmer. Ian Bremmer, on this resolution, do you declare, "Yes," or, "No"?

Ian Bremmer:
I declare, "No."

John Donovan:
I would like to do this. I would like to give you an additional 30 seconds to explain to the layperson, "What is the belt and road initiative?" If you can do it in 30 seconds, and then you get your 90 seconds on top of that.

Ian Bremmer:
Well, sure. I can actually put those two together, because one of the reasons it's not a trillion-dollar blunder is because they've invested 50 billion so far, and they put out loans for 300. So, I mean, come on, guys. I mean, give them a few -- give them a couple more years before they can make a trillion-dollar blunder. It is a -- an enormous set of strategic investments in infrastructure in countries around the world, driven by Beijing. It is not as much multilateral as its hub and spoke, and you could call it the Chinese equivalent of a Marshal plan, except that democracy is not one of the driving pieces of conditionality.

00:29:55

No, I don't think it's a trillion-dollar blunder, and not just because they haven't actually spent that much yet. First of all, it's marketing genius. You know, you go to Davos, and you see a few heads of state. You go to the Belt and Road Summit, and you see more than anywhere in the world, except at the United Nations General Assembly, and they're all there to do strategy at the convening of Beijing, who they want to write more checks. That's pretty extraordinary.

You see that there are lots of countries in the world that are willing to do more Beijing's bidding politically because the Chinese are the only ones that are able to do long-term strategy and put cash behind it. So, for example, I was with the -- this was the Slovak prime minister the other day who said that he spends more time with the Chinese prime minister in the regular east European 16 plus one format of summitry than he spends with most of his neighboring country, men in his position.

00:30:47

And he, as a consequence, is wanting to align his country much more economically with the Chinese. You're seeing how, in Peru, they do about a third of their business with the U.S., a third of their trade with China, a third with Europe. But because it's the Chinese government, they're doing much more alignment with the Chinese as a whole. I -- you put these things together, and you see that it's an extraordinary, not just marketing plan, but a way for the Chinese to development real political leverage around the world that, otherwise, they'd have a hard time picking up.

John Donovan:

Thank you, that was exactly two minutes.

I was counting to myself. Thanks very much, Ian Bremmer. Our next speaker on the resolution, "The Belt and Road Initiative is a Trillion Dollar Blunder," Michele Flournoy. Michele Flournoy, how do you declare? Yes or no?

Michele Flournoy:

I declare, "No" --

John Donovan:

You have 90 seconds.

Michele Flournoy:

-- because I agree that the BRI will enable China to gain a strategic foothold and influence in key countries.

00:31:55

What's not yet clear is how successful they'll be, as there has been some backlash generated in some countries. So, let's start with the benefits. China has demonstrated that the model can work in places like Shri Lanka, and Pakistan, and Greece, and it's believed that BRI brings them several benefits; first, new export markets, promotion of Chinese currency, tariff reductions, access to new trade routes, and most importantly, as Ian said, political influence. But there has been a backlash. A number of small debt-ridden countries are now more concerned about the risks of signing up. They witnessed Shri Lanka who was forced to give China a 99-year lease to a strategic port, because of -- they could not pay their debts to Beijing.

And so other countries now fear a similar face -- fate. You've seen Malaysia, Maldives, Sierra Leon, and [unintelligible] -- among others, backing away from BRI projects or trying to demand refinancing.

00:32:52

So, it's definitely hit some bumpiness in the road, but the real problem is that the U.S. and its allies do not have an answer. We don't have a counteroffer, a rival alternative. I think one of the places we could compete more effectively is in the digital Silk Road, in working with our allies to offer an alternative to some of these Chinese companies like Huawei that risk creating intelligence networks abroad for the Chinese as opposed to telecom openness and transparency.

John Donovan:

Thank you, Michèle Flournoy.

On the resolution, The Belt-and-Road Initiative is a Trillion-Dollar Blunder, our next speaker is Yasheng Huang. Yasheng, do you declare yes or no?

Yasheng Huang:

I declare yes. So, remember, the question is whether or not it is a trillion-dollar blunder, so it's a finance question.

00:33:59

All I heard from our other two previous speakers -- they're talking about political payout, so even though they say no, I don't think they answered the question. So, the Belt-and-Road program is based on a false premise, which is that you need these massive investment projects to jumpstart economic growth. If that principle had been correct, the countries that today are the top of the economic pyramid would be countries such as Egypt rather than England. Egyptians were capable of building great projects; ancient Chinese were able to build great projects -- the Great Wall; the great canal. The falsity with that idea is that, in fact, if you look at economic research closely, the infrastructures happen after economic growth.

00:35:00

They are typically the result of economic growth, and this is the devil of doing social science, because they often in social science -- actually, all the time in social science, two things happen at the same time, and we don't know which one is the cause, and which one is the effect. Correlation doesn't mean causation. Much of the relationship between infrastructure and growth is actually the correlation [unintelligible] --

John Donovan:

Sorry, your time is up, but I'm going to be coming to you --

Yasheng Huang:

Okay.

John Donovan:

-- because you're a yes vote. On this resolution, The Belt-and-Road Initiative Is a Trillion-Dollar

Blunder, Parag Khanna, do you declare yes or no?

Parag Khanna:

I declare no. The Belt-and-Road initiative really began well before it had a name. You know, we used to call it the Silk Road, and in a way, the cross-roads of Asia knitting itself back together through this process of infrastructural connectivity across this vast space of Afroeurasia, it's actually called -- Europe, Africa, Middle East, and Asia -- connecting -- reconnecting is really something that is as inevitable as history itself because it was interrupted, basically, by colonialism and the Cold War.

00:35:54

And now, with colonialism and the Cold War over, the Soviet Union collapsed about 30 years ago. Since that time, the process has been underway. It just acquired a name a couple of years, the Belt-and-Road initiative.

But I personally have been backpacking through a lot of those countries for at least 20 years, so it's been going on for a long time, and it's going to continue. In some ways, it's just getting warmed up. In fact, a study that the Ram Corporation did looking at the trade linkages between pairs of countries that are part of Belt-and-Road said that it is win-win. Countries are winning and gaining from the trade intensity that is growing through the relationships. Citigroup, an American bank, obviously, said that Belt-and-Road is moving away from just one-to-many, sort of whatever China wants, to many-to-many as everyone gets involved, and indeed, I think that China has succeeded more than it even anticipated. It's unleashed this case of FOMO, right? Fear of missing out.

Because now that China has announced Belt-and-Road, the U.S. has its USIFDC; Europe has its Asia Connectivity Initiative.

00:37:00

Everyone is launching connectivity initiatives; everyone is getting involved in infrastructure finance, and that's just going to make sure that the broader process of connectivity succeeds even further. So, my punchline on this is, you know, Beijing built lots of roads, but all roads won't lead to Beijing.

John Donovan:

Thank you very much. And again, to our final speaker on this panel in this round, Susan Thornton. On the resolution The Belt-and-Road Initiative Is a Trillion-Dollar Blunder, do you declare yes or no?

Susan Thornton:

I declare yes.

John Donovan:

You have 90 seconds.

Susan Thornton:

I think what we're going to end up with, actually, is a lot of bridges to nowhere. You know, the U.S. had a great idea, too, for connectivity. It was called the New Silk Road. It was supposed to connect Afghanistan with all these other countries in Europe and Russia, and we tried to do these projects, and guess what? No one would pay for any of them. And do you know why? Because they were dumb. They were dumb, and they weren't going to make any money, and nobody wants to pay for projects that are not going to make any money and bridges that are going to lead to nowhere.

00:38:00

And a lot of these projects -- a highspeed railroad from Beijing to Moscow? Are you kidding me? I mean no one is going to be on that train. How is it going to make money? So, the Chinese are going around writing lots of checks. Great. Again, it's an issue of what systems do we believe in? You know, we have market capitalist economics because it produces efficiency, and this is not an efficient set of projects. It's not an efficient set of financial investments. And I think the Chinese are going to end up wasting a lot of money.

John Donovan:

Thank you, Susan Thornton. And now we move on to more free-wheeling discussion -- the resolution being "The Belt and Road Initiative is a trillion-dollar blunder." We have three no's and two yeses. The no's are saying it's not a blunder -- that in fact, it's well-thought out. It's doable. It's feasible, but not necessarily easy -- though there is some backlash to it that the commitments of the Chinese government to this is real, and so is -- it's capable, and it's playing a long game, and has a lot of time -- and it can take a long time to invest a trillion dollars.

00:38:53

While the side opposite is saying it's basically based on a false premise, that you need to have massive projects to jumpstart economic growth; that the whole concept is unfeasible. It's dumb; it's delusional. It's going to lead to a lot of bridges to nowhere. Yasheng Huang, I cut you off at a point where I think you were going to continue to be quite interesting. So, I'd like to give you another 45 seconds to --

Yasheng Huang:

Don't raise the --

John Donovan:

You already were --

Yasheng Huang:

-- expectation --

John Donovan:
You already --

[laughter]

-- you were already deeply fascinating. But just keep going.

Yasheng Huang:

No, I -- well, I agree with Susan. The Silk Road was the result of private sector activity. And private merchants were trading across Eurasia. And -- whereas Belt and Road is almost a -- completely a government project. And the Chinese economy itself didn't succeed because of infrastructure.

00:39:55

China started out in the 1980s with terrible infrastructure. In fact, in developing countries, the most reliable measure is the length of the railways. If you look at China and India -- India, because of the British [unintelligible] -- there are a lot of railways. India had longer mileage of railways, as compared with China in the 1980s.

It was the Chinese economy that took off. China only began to build infrastructure in the late 1990s, after 20 years of the economic growth, which provided savings to the banking system; it provided tax revenue to the government. And therefore, the government was able to build railways, and highways, and other --

John Donovan:
So --

Yasheng Huang:
-- infrastructure.

John Donovan:
So, you're --

Yasheng Huang:
It's really following the economic growth rather than jumping-start the economic growth.

John Donovan:
Let me bring in Ian Bremmer. I'll come to you next, Parag.

00:41:00

Ian Bremmer:

Oh, okay. Look, I think it is the right strategy for us to criticize it as really stupid, since we obviously, as a government, are not going to otherwise be able to compete with it. I don't think a lot of people are going to find that compelling around the world. Number one; a lot of this is marketing, and it's effective marketing. Again, only 50 billion has been actually spent. It's like when the Saudis come over and they tell Trump, "Here's \$100 billion we're going to buy in defense" -- but in reality, almost none of that actually happens. But it sounds really good; they can Tweet it. That's part of this. So, let's not pretend they're spending a trillion dollars. Secondly, do not tell me that politics do not matter as a give-back for what the Chinese are spending. Politics matter --

Yasheng Huang:

[unintelligible] --

Ian Bremmer:

-- an awful lot. Well, don't --
[speaking simultaneously]

Ian Bremmer:

[inaudible]. I mean, you know, maybe at MIT that passes. In most places --

Yasheng Huang:

You -- actually, we --

Ian Bremmer:

-- it's --

Yasheng Huang:

-- MIT [unintelligible], okay?

Ian Bremmer:

Okay.

I didn't think it would, because they have a strong political science department at MIT, which you don't visit. But look -- [laughter] -- no, but that --

00:41:58

Yasheng Huang:

Maybe she does.

Ian Bremmer:

The fact -- [laughter] -- the fact is that the Chinese are deeply satisfied with the idea that three BRI participants in Latin America have switched their view on Taiwan towards China more

recently. The Chinese are deeply happy with the fact that the E.U. can no longer put together joint statements opposing China in the South China Sea building islands. Why? Because they're getting money from the Chinese. Those things matter for the Chinese, and they're very happy with the return on that investment. Security. Hambantota Port. Sri Lanka. The Chinese put some money in. The Sri Lankans weren't able to pay it back. The Chinese took it over. What does it mean? They can develop a base in Sri Lanka that they weren't going to get otherwise. Sri Lankans aren't happy with that. The Chinese are. Final point. Even economically, they've done a few things right. Go talk to Mr. Takas [spelled phonetically] -- [unintelligible] Takas. Harvard-educated -- I hate to say it -- economist, right? Who's going to be the next prime minister of Greece.

00:42:59

He would much rather work with the Americans. But the Chinese have invested in Piraeus Port in Greece. It's been on time -- two specifications that's created local Greek jobs, and they're now starting to invest in a broader urban center. Thessalonica port, it was the French with the Russian oligarch. It's been a disaster. One other port that was going to be built by some American Greeks, they talked really big, never actually got it off the ground. Greeks want to work with the Americans, but they're stuck working with the Chinese.

John Donovan:

Parag, I want to give you a chance to respond to that, but also to come to this point. So, the fact that the Chinese have this ambition, these plans, a lot of them involving ports, are they -- are we looking at a form of colonialism, and are we looking at a form of military expansion in colonialism? In other words, will they be building themselves, essentially, naval bases?

Parag Khanna:

Yes and no in the sense that already China wants to protect its supply chains, right? It depends so much on commodity's imports from the Middle East, from Africa, and from elsewhere in Asia. And therefore, as those trade networks expand, it wants to protect those supply lines.

00:43:58

And therefore, it naturally wants to have not only its, you know, coast guard there, but even, you know, naval vessels and so forth to protect those supply chains in the ports. So, you do see the expansionism, but that doesn't make it a new colonialism, because in the intervening centuries since colonialism more or less passed, or in decades, you have sovereignty, you have democracy, you have transparency. You have countries scrutinizing everything that China does, and pushing back against it, which is what Michele began to point out. So even if China wants to do something, like, for example, have submarines, and warships, and whatnot dock at [unintelligible] port to port, because now they have a lease on it, guess what. They're not going to be able to do so, because the political backlash is so strong. And you're seeing that backlash everywhere, because it's not a colonial world anymore.

Let me just make another point, though, building on what Ian said. Strategic ROI is why they're doing this. In geopolitics, you learn about something called the Malacca Trap, the Strait of Malacca that passes between Singapore and Indonesia is the narrowest Maritime chokepoint in the world. Not only China, but also Japan and South Korea, depend on having all of their commodities flow through that narrow channel that they don't control.

00:44:56

And almost all of their finished good exports flow through it in the other direction. So, it is priceless for China. It is worth \$5 trillion to have terrestrial corridors through Central Asia to reach the Middle East and to reach Europe. They just keep on spending.

John Donovan:

Okay, we have not heard from Michele in a bit, but Michele, you would be the third, "No," speaker in a row. So, if you could bide a couple of minutes, I want to go to Susan to respond to some of what you're saying, and then you're -- you'll be next.

Susan Thornton:

I mean, I think the question is whether or not the Chinese are going to benefit from this project, and I still stand by what I say, in general, that these projects are not profitable. They're not sustainable, and they're going to result in more backlash over time. Certainly, there's political license that goes along with a lot of things that they're doing, and that -- you know, we'll see how that works out over the long term. It hasn't worked out so well so far in Malaysia. It may not work out so well in the Maldives.

It's not working out so well in Venezuela. So, I mean, we have to see, but these are things that could go either way.

00:45:59

And, in a lot of cases, with the sort of -- kind of throwing-their-weight-around attitude that the Chinese have, it may not work out so well for them. But I do want to say that, you know, shipping by Maritime routes -- so there's a built and there's a road. Confusingly, the road is on the sea, and the belt is over the Tianshan Mountains in Central Asia. And it's going to cost \$50 trillion to extend those trade routes through there. Trust me. But on the sea routes, I think it does make a lot of sense for the Chinese to develop that, actually, if they can do it. And whether it's for military purposes or not, there is an economic angle there.

John Donovan:

Michele Flournoy.

Michele Flournoy:

Look, I think the primary motivations for China undertaking this initiative or not economic, they are actually strategic and political. Strategic access to critical minerals and markets, alternative

trade routes to get out of the Strait-of-Malacca problem, political influence that may translate into votes in support of their position on Taiwan, or South China Sea, or something else down the road.

00:46:56

And, in this current environment, sort of putting forward a new face, China is the alternative new leader to the United States that you can turn to and rely on for investment in your country, to be a force for good. This is -- there is a ideological competition going on here, too. So, it's not about their economic ROI. It is about the strategic and political ROY.

John Donovan:

And, Michele, is that taking advantage of a perceived American withdrawal?

Susan Thornton:

Yes, it's taking advantage of the perception that America is turning inward, that we are not as engaged, that we cannot be relied upon to lead, and to be a partner and ally.

John Donovan:

Parag.

Parag Khanna:

You know, I think if we oppose Belt and Road because we're not part of it, I think it's just part of this reflex new cold war mentality that sort of says, "Well, we missed the train. You know, well, I guess we didn't want to get it -- on it anyway, and China's just going to screw it up," it's just not true.

00:47:58

All of the research on Belt and Road projects, as an aggregate, point out that, again, it is win-win, right?

So, we may -- our news headlines are going to point to countries that railway was too expensive, or that hydroelectric dam was -- you know, we paid for with non-concessional lending rates, you know, 5, 6 percent. Let's renegotiate that. It doesn't mean that these countries don't need the infrastructure. And we chronically, chronically -- and this is a point I'd love for you to respond to, Yasheng -- we chronically underestimate the demand for infrastructure. We think we're so -- "Well, let's just wait; the market will decide when it's necessary." Not true. When the first train started going from China over to Europe about three, four years ago, people started saying -- people were complaining, saying, "Oh, well, it's full of goods from China that are going to be dumped into European markets. The Europeans have nothing to sell; they're never going to catch up; they're going to be empty." Within three years, the Europeans have mostly caught up, and they're sending lots of stuff back the other

way. Most estimates of the Trans-Eurasian trade volumes, which are \$1.6 trillion today, put it at about \$2.5 trillion by 2030. Right?

00:48:57

So, in other words, there is going to be utilization of this infrastructure. And if you go to Kazakhstan, you go to Mongolia, you go to lots of countries that are part of Belt-and-Road -- pretty much all of this, because they are joining it voluntarily because it's not a colonial world -- they're doing it because they want to. They're doing it because infrastructure and connectivity enhances their trade; it creates jobs; it diversifies their economy.

John Donovan:
Yasheng?

Yasheng Huang:

Yeah, so the railway shipment is four times as expensive as shipment by sea, so it's -- I recognize the point you made. It's not going to be a major transportation mode. I think it's interesting to hear the comment "\$50 billion is a small amount of money." Actually, for China -- China's GDP, the second-largest in the world, on the per-capita basis it's right in the middle of the 198 countries in the world. It's the middle -- [unintelligible] middle-income country. It's right in the middle, so we're not talking about a rich country.

00:49:56

It is a middle-income country. Shelling out \$50 billion here, \$50 billion there -- sooner or later, it's going to be a \$1 trillion investment. So, I'm not going to trivialize \$50 billion. At the same time when China is doing this, 60 million rural children in China are left in the countryside without any basic education. There's an excellent book by Scott Rizell [spelled phonetically], Basic Education in China. Chinese governmental health [spelled phonetically] has neglected investing in rural areas, in public health, in basic education, and they are spending this largesse on other countries.

So --

John Donovan:
So, you're saying it's unsustainable?

Yasheng Huang:

It's not sustainable because it's happening at the extreme expense of the domestic investment -
-

John Donovan:
Okay --

Yasheng Huang:

-- in public health and public education.

John Donvan:

-- I want to let Ian Bremmer respond to that point.

Ian Bremmer:

A lot of Americans felt the same [unintelligible] Flint, Michigan, and say that -- how can we possibly be putting aid out internationally when we're allowing people to not have water that's clean in our own backyard?

00:50:49

And I think the answer is that we can actually walk and chew gum at the same time, and the Chinese have been saying, "Oh, we're poor; we can't do anything." The fact is they're the second-largest economy in the world, and they're about to be the largest economy in the world. They've gone from extreme poverty to a middle-income country right now. There's no question, though, a lot of people in China are suffering. I would argue that a lot more of the suffering in China still happens at the hands of political decisions than it does because of economic incapability. Look at Shenyang.

The Chinese government as a whole is not particularly sympathetic to either of those conversations. But that's not really what we're talking about here. We're not saying, "We'll just spend the \$50 billion on these investments to have more strategic and political leverage as opposed to being able to take care of those folks." I mean, let's face it, it's like asking the Americans, "What are we going to do with our defense budget? Oh, let's spend it on education instead." That is not the conversation that we're having.

00:51:57

Yasheng Huang:

That does not have anything to do with the tradeoffs [unintelligible] investing in science and investing in education. I'm talking about investing in projects that clearly do not have economic returns. Usually, it means investing in public health and public education. But don't confuse Shenyang in this discussion. Shenyang gave tremendous rewards in economic terms to China. Massive investments in science and technology are going to produce entrepreneurship, produce GDP growth, in a way that Belt-and-Road does not.

So, Parag, I'd like to ask you: show me one situation in which in the past the China shipment has been threatened by some sort of external force that justifies port controls and strategic operations of ports.

John Donovan:

Parag, I'm going to have to let that stand as a rhetorical question, because we're out of time, and we've completed debate on this topic.

00:52:57

Or -- is there an audience demand to hear [unintelligible] the answer to that question?

[applause]

John Donovan:

[unintelligible]. Okay.

Parag Khanna:

If I can.

John Donovan:

Yeah, go for it. But then we have to wrap it up.

Parag Khanna:

Belt-and-Road did not begin as a military venture.

It actually began as a defensive -- in order to diversify transportation corridors, right? It turns out that every country also wants the same thing. As I said, in the last three years, since Belt and Road was announced, Europe has announced its Asia connectivity initiative. Japan and India have announced their connectivity corridors. The United States has created a U.S. International Finance and Development Corporation. If China were to retract money from Belt and Road in the sense of Trans-Eurasian networking, and connectivity, and trade corridors -- everyone else would still want to do it in order to trade with each other. So, the volume of capital is going to grow. And the proportion of that total capital that is Chinese is going to decrease. It's not just about who trades with China. There's north, south Silk Road and connectivity corridors from India to Russia, and other --

John Donovan:

Yeah -- Yasheng, was your question answered?

Yasheng Huang:

I don't think so, because -- [laughter] -- because -- well, maybe Ian justified the Belt and Road by citing the Sri Lanka example, where the Chinese acquired the custodianship of a port, right?

00:53:48

The argument there is it's a military and strategic. You have to show me the case where the Chinese trading has been threatened by --

John Donovan:

Okay.

Yasheng Huang:

-- by Indian Navy, or by Sri Lankan --

Male Speaker:

You actually just have to ask yourself whether, if you were a Chinese leader, you would trust America's Navy to be protecting your supply chains --

Yasheng Huang:

Well, in effect --

Male Speaker:

-- [inaudible] --

Yasheng Huang:

-- in effect, they have, right? Since 1978, Chinese trade volume has increased dramatically, under the Pax Americana arrangement, right? [unintelligible] they have done that. The issue is, going forward, in the future, whether or not they should trust or not. That's a separate question.

Female Speaker:

[inaudible] --

John Donovan:

That is a separate question, and that's why we are going to wrap up this discussion on whether or not the Belt and Road initiative is a trillion dollar-blunder.

[applause]

As we move on to our third topic.

00:54:58

Right now, we are in the early stages of a trade war with China that didn't exist two years ago. The two presidents, Trump and Xi, say they are trying to reach a deal to call the whole thing off. The president -- as we took the stage tonight -- the president of the United States, as we took the stage tonight, indicating that he is pushing off the March 1st deadline. It's not done yet, which leaves open the question, if this trade war continues, who wins? Our resolution is framed this way: "The U.S. and China Will Both Lose the Trade War." Our first debater will be Parag Khanna. On this resolution, how do you declare? Yes or no?

Parag Khanna:
I declare yes.

John Donovan:
You have 90 seconds.

Parag Khanna:
Okay. Let's start with the ways in which China will be a relative loser. And for both China and the U.S., the further you look out in the future, I think the further this will become apparent. So, major shifts in trading patterns really pre-date the trade wars, such as the fusion of supply chains out of China. A lot of it has to do with the fact that Chinese wages have been rising. Some multi-national companies, whether American, or Japanese, or European have been diverting their labor and their manufacturing work out of China into Southeast Asia for quite some time.

00:55:55

Foxconn, for example, has done so as well. India, last year, got more foreign investment than China did. Southeast Asia got more foreign investment than China -- or has for the last five years. And now, of course, China's industrial policies alienating a lot of countries -- suspicion of Chinese companies like Huawei as well. So, the -- China is sort of being brought back to earth in that sense, through this trade war. Now, for the U.S., the case is even more clear-cut, in terms of how it's going to lose, because most of what the U.S. exports to China can be substituted by others, whether it's semiconductors that China is going to get from Taiwan, or South Korea, or Japan; soybeans that it will get -- that it gets from Brazil and Argentina -- and even now Russia is growing soybeans. Airplanes? Maybe China will stop buying as many from Boeing and will buy more from Airbus.

Every day, Europeans are flying over to China and other Asian countries to convince them that they should not be buying American products. So, just remember that America's allies, geopolitically, are not necessarily our allies geo-economically, because they're actually trying to undercut us and do more business with Asian countries, including China, and substitute us in those markets.

00:56:51

So, the U.S. will also be a loser from the trade war.

John Donovan:
Thank you, Parag Khanna. Our next speaker on this resolution, "The U.S. and China Will Both Lose the Trade War," Susan Thornton. How do you declare? Yes or no?

Susan Thornton:
Yes. I declare yes.

John Donovan:
Ninety seconds.

Susan Thornton:
I'm going to stop being contrarian now. I'm going to go with the flow.

[laughter]

But no; I think both countries are already losing the trade war.

I think that we've seen diminishment of exports in both directions -- of course, a much more bigger drop in the Chinese exports to the U.S., than from the U.S. exports to China, but a lot of U.S. industries have already lost markets to other -- or mark their sellers, as Parag was saying. I do think, though, on a more optimistic note, that if we can pull back from this trade war and get some kind of a deal, there is a possibility that both sides can win.

00:57:59

As I've already mentioned during tonight's discussion, China is in a period of retrenchment of -- from reform, and it -- and most Chinese -- they -- there's a joke going around in China now, "Who are two old guys that are going to push China into the modern era? Xi Jinping and Donald Trump. They want Donald Trump to push China as hard as possible to reinvigorate its economic reform program because they know that the Chinese economy needs to move to the next stage of opening up in order to make that leap out of the middle-income trap that they're so worried about being stuck in. I think, you know, the U.S. obviously would benefit if we could get a deal with China that would open up some of these areas of China's market to U.S. companies. And I think the rest of the globe would also benefit from some kind of a deal that we could get, as long as we get some progress on these structural issues.

John Donovan:
Thank you, Susan Thornton. On this resolution, Ian Bremmer, do you declare, "Yes," or, "No"?

Ian Bremmer:
I'm going to declare, "No."

00:58:59

This is the most complicated, I think, of the three questions. It's the one you'd want to say, "it's complicated," in the Facebook kind of way in response. I'm going to say, "No," in both a cute way and a real way. The cute way, I'm going to say, "No," because it's not happening. I don't think there's going to be a trade war. I feel very strongly that the Americans and Chinese, for different but overlapping reasons, are going to back down Trump because he doesn't want it to affect the American markets, and it hasn't really except for a little scare in December, and

because he wants to show the he personally can do a big deal, and the Chinese because, actually, their economy's gotten a little bit more vulnerable, and Xi Jinping doesn't want this fight right now. And, broadly speaking, I think that if we look at the damage that's been done so far, you talk about still a broad environment where the U.S. and Chinese economies were very interdependent.

They still are. China's becoming, gradually, a larger economy than the U.S. but still very far behind on the per capita basis.

00:59:57

That's still the case. And going forward, yes, we're seeing growth slow in both China and the United States. In China, that's because of [unintelligible] leveraging. In the United States, that's because of the Fed and the end of the tax cut stimulus. So, I mean, if you ask me to really make a strong call here, "Are we both going to get hurt by this trade war?" I think the answer -- at the margins, I think I'd say, "Yes," but overall, I think I'd say, "No."

John Donvan:

Thank you, Ian Bremmer.

Our next speaker on the resolution, "The U.S. and China will both Lose the Trade War," Michele Flournoy. Do you declare, "Yes," or, "No"?

Michele Flournoy:

I will declare, "Yes." Given the interconnectedness of the two economies, it's really not possible for either country to win a trade war, should it continue. Restrictions on trade end up resulting in increased prices and decreased exports for both countries. The trade war is already hurting both, and China -- in 2018, we saw the lowest Chinese GDP growth that we've seen in quite -- in a number of years, really, since 1990.

01:00:54

Now, the trade war wasn't the only factor, but it was a contributor. Demand for labor in the Chinese import-export sector has fallen by 40 percent in the last quarter of 2018, compared to a year earlier. And there's starting to be some hurt in the U.S. economy, too.

I think, if these tariffs were sustained into the future, there's projections that you'd see reduce U.S. exports, decrease GDP, and also elimination of a substantial number of American jobs. But I think the real question is, you know, the U.S. does need to challenge China's unfair trade practices, whether it's restrictions on market access, theft of intellectual property, subsidies -- extraordinary subsidies of data-owned enterprises.

But the tariff war is the wrong way to go. If we were to do this in the right way, the U.S. would go out to all of the other countries in Asia and Europe that have the same issues as China, and

we would lead the formation of a coalition to come together to press China to make structural reforms.

01:01:48

That's the right way to approach this.

John Donovan:

Thank you, Michele Flournoy. And finally, Parag Khanna on the resolution. Do you declare, "Yes," or, "No." ?

Yasheng Huang:

I declare, "Yes."

One thing I worry about is that the trade between China and the United States has acted not as a -- not only as an economic engine of relationship between the two countries, but also as a basis of political and social relationship between the two countries. Once we undermine that pillar, other relationships are also going to sort of suffer. Right? So, that's -- both of them are going to suffer. It's fairly easy to argue why it is [unintelligible] China's trade as [unintelligible] share of the GDP, but the Chinese economy is about 40 percent, a little bit shy of 40 percent, so the U.S. is only 26 percent.

01:02:53

So, it's hurting China. Export is a very important part of the Chinese economy. It also happens to be one of the most productive sectors of the Chinese economy. So, we need to make a case why the trade war is hurting the United States as well. People mention about farms and agricultural products. One of the other channels in which the trade with China has helped the United States is through lowering the cost of living for the Americans. People tend to think about Chinese trade, Chinese imports, as hurting jobs in the United States. True, there is some of that. But it is also lowering the cost of living for poor Americans.

There's a book called *Made in China* in which the author tried for one year to live on products not made in China, and she found it extremely difficult.

01:03:55

John Donovan:

Okay, I'm sorry, I have to cut you off on the opening round. That concludes our opening round on this third resolution, and I want to go, since we have four yeses and one no on that -- and that was Ian Bremmer -- I want to go back to Ian Bremmer. As you said at the beginning, this might be the nuanced of the three resolutions that we're debating, and as part of the nuance there, I think there's a little bit of ambiguity in the resolution in that it says that both the U.S. and China will lose the trade war. Are you arguing that neither the U.S. will lose the trade -- or

China -- will lose the trade war, or that one of them won't? Both won't, or one of them won't?

Ian Bremmer:

I'm first of all arguing that they both won't.

I think that the American -- there are lots of ways to cut it. Right now, I think Trump is backing down, but if you'd gone the Bannon route, where, when he was chief strategist in the White House, and he said, "Look, we're going to come to blows with the Chinese eventually, but we're more powerful than they are now. If we wait for five or 10 years, it's going to get a lot harder. We've got to hit them really hard."

01:05:01

I think if that had been the strategy, and the Americans did as Michèle suggested with the Europeans, with the Japanese, joined TPP, really, you know, put together the strongest possible case, I think the Chinese would have backed down, because they would recognize this was going to hurt them an awful lot. Let's keep in mind, you know, war games, thermonuclear war. The only way to win is not to play. Right? I do think the Chinese are strategically smart about this, so ultimately -- you know, they made some mistakes. Xi Jinping -- the fact that the Chinese were always saying, "We're not ready to be leaders" -- Xi Jinping came out of the box pretty hot, and he said, "No, I'm going to be a leader, and we're going to be the leaders in free trade.

And by the way, I'm even going to be leader for life, so I'm going to get rid of all the term limits." I think that was strategically a mistake for them, and I think that now that they've seen that the Americans are a little unpredictable and willing to potentially hit them hard in ways that every single one of my co-panelists have admitted this is hurting the Chinese economy, they're not going to play, and as a consequence, we're just not going to have a trade war.

01:06:00

And I think it's important that someone says we're not going to have a trade war.

John Donovan:

Do the other four of you agree that we're not going to have a trade war? Parag?

Parag Khanna:

I think we're perpetually in some kind of a trade. You know, there's competition, right? I call it tug-of-war. We're always competing to have the largest share of the supply chain or value creation within our shores, employing our workers, generated by our companies with our IT or that we've bought, borrowed, or stolen from others, or built ourselves. That's a constant struggle. It's not something that begins just because a President says, "I'm going to raise tariffs on steel, raise tariffs there."

Even when you're having trade negotiations, you're having that struggle over, you know, the various regulations involved in them. How much do you have to protect IP? What scale of subsidies are allowed? And that kind of thing. That's a perpetual thing. It's obviously now just being escalated. It could also be deescalated. But to me it's a low-level struggle that is ongoing, and even if you have a resolution next week -- let's be perfectly clear -- it still continues, because whatever hiatus or pause or reform the Chinese may offer, it's going to be very slow to implement, and they're going to make sure that they've locked in benefits to them but in certain sectors before they actually open those sectors.

01:06:49

So, it continues even in -- when not in name.

John Donovan:
Susan Thornton?

Susan Thornton:

Yeah, I was just going to say I think the American people agree with you, Ian. They don't think there's going to be a trade war, and I hope that they and you are right. But I do think that we are in some kind of a tech war, and I think that's going to go on long after this -- whatever this deal is. And I agree with you, Parag, that it's going to be very hard to verify the good parts of a deal, assuming that we get them.

But I think the tech war part is going to keep going, and I think we see some fragmentation of the Internet. I think we will see a lot of tug-of-war over this, and that will continue to have knock-on effects for both the U.S. and the Chinese economies, and it will continue to produce a lot of uncertainty for our business.

01:08:00

John Donovan:
Michele Flournoy.

Michele Flournoy:

You know, I look at this through the national security lens. And one of the things that I worry about in the talk of a trade war is feeding kind of hardliners on both sides. So, there are now Chinese folks who are very much talking about -- "The U.S. is trying to contain China. Therefore, we should see the U.S. as an adversary, and we should disentangle -- they want to disentangle? Fine. We will disentangle and we will compete and win."

And you have others on the U.S. side who say, "We've got to disentangle on our side." One of the ways that you deter this competition from becoming open conflict in the future is you make it too painful for both sides to ever go to war with each other. And that's by staying engaged and recognizing that we do have inter-dependencies that we should actually manage. We have

to fight for our interests where they're violated. But you don't want to disentangle. It's not possible, nor is it wise.

01:09:00

You have to use inter-dependencies to try to prevent the competition from becoming conflict.

John Donovan:

Okay. With four yeses and one no, Ian Bremmer, again, you're the no. I saw you nodding a lot when Michele was speaking. So, you're agreeing with her?

Ian Bremmer:

Yeah, I am, and I'm also agreeing with Susan. But let me be clear. I mean, if the resolution had said that neither side can win a tech war, then I would have flipped it.

But since it actually said trade, then Susan should flip hers.

[laughter]

In -- I think that one question that we haven't asked, right, is what does it mean to win or lose a trade war? Right? Because we talk about wars. We kind of know that, in any sort of war, that it kind of usually does hurt both sides. But we usually still do talk about winners and losers. You know, World War II. The Brits didn't certainly feel necessarily like winners, coming out of that. But they did actually win, with the United States and others. And I guess I would say if we -- I don't think we're going to end up in a knock-down, drag-out trade war with the Chinese. But if we did -- though it would hurt our economy -- but I think we'd win, right?

01:09:56

I mean, as the world's largest oil producer, and food producer, with the world's only global reserve currency, and a geopolitical environment that actually is quite stable -- and a representative democracy that doesn't work super well, but is a lot less brittle than Xi Jinping as president for life, and no rule of law -- yeah, if we really decide to get into it, right -- if, like, the entire administration becomes Steve Bannon --

[laughter]

-- as the -- as a multi-layered Borg, right, because you've seen him do that -- yeah, I think that the Chinese lose that trade war. Yes, I do.

Susan Thornton:

I don't know. I think the rest of the world -- I mean, we -- you're assuming that everyone else in the world lines up with us. I -- and I'm not sure --

Ian Bremmer:
No. [inaudible] the Japanese --

Susan Thornton:
-- that that would be the case.

Ian Bremmer:
-- a bunch of -- and --

Susan Thornton:
Yeah, I don't know.

Ian Bremmer:
-- the, you know, Mexicans.

Susan Thornton:
China is the number one trading partner --

Male Speaker:
Yeah --

Ian Bremmer:
Fair.

Susan Thornton:
-- for every single country in Asia.

Parag Khanna:
And by the way, and Japan --

Susan Thornton:
And it's very important to them.

Parag Khanna:
You know --

John Donovan:
Parag --

Parag Khanna:
-- all the -- when the U.S. pulled out of the Trans-Pacific Partnership Trade Agreement -- which, by the way, we created, right?

01:10:57

Architected and walked away from [laughter], every other country decided to go ahead and join, including the Canadians, Mexicans, and so forth. We already have data, even just from one quarter -- or half a year -- showing how other countries are eating away at America's market share in those countries. And crucially -- because you mentioned the Japanese -- when we are now trying to push for a bilateral FTA with Japan, they're saying, "Yeah, you know what? Why don't you just come back to the TPP framework and let's do it that way?" So, trade with China matters a lot to almost all of these countries. And we didn't mention one of the winners, because it's relative gains and losses -- not absolute. But again, Europe, right?

You know, Europe is going to be -- whether it's aircraft, industrial goods, technology -- the stuff that China and other Asians feel is now politically volatile -- that the U.S. could import -- impose export controls on any time, like semiconductors and other sorts of things -- it's just not -- they're just not going to buy them from America anymore. They're going to buy them from Europeans and other Asians.

John Donovan:

You're saying -- Ian raised the question of we haven't really defined what's winning and losing, and he did actually come up with a sort of extreme case of winning.

01:11:57

But if the U.S.'s goal is to get China to open markets, to stop stealing intellectual property -- and that were to happen -- would that not be a win?

Yasheng Huang:

For the --

John Donovan:

For the U.S.

Yasheng Huang:

-- United States?

John Donovan:

[affirmative]

Yasheng Huang:

For the -- I think, in the current state of the trade war, China loses more than the United States. If we go all the way to the total trade war, China is going to win.

Remember, this is a country that went through the Cultural Revolution and Great Leap Forward and survived those economic catastrophes. If we fight extreme wars, the Chinese political system is going to come out at the top, just because they have this capability of withstanding

massive economic shocks. But I want to say that the trade war has already translated into conflicts in other areas, and those conflicts are happening already.

01:12:57

Today's debate is about cold war. Two years ago, we didn't use cold war to describe relationships between China and the United States. The director of the FBI, Christopher Wray, described the Chinese government as a threat to the United States, as well as the Chinese society. That means Chinese scientists. That means Chinese students, Chinese visitors. U.S. is curbing the visas on the Chinese students. The graduates from American universities cannot get visas anymore. They cannot do research in the United States universities. They find it more difficult to do that than before. The U.S. is also restricting investments by Chinese companies in the United States, not just large-scale investments, but also small-scale investments in startups, right?

That's going to hurt the United States.

01:13:59

John Donovan:

So, it's always going to rebound on the United States? You're saying that if China suffers, the U.S. suffers?

Yasheng Huang:

There's no question both sides lose, right? It --

John Donovan:

Well, Ian says there's a question.

Yasheng Huang:

No, no, no. If I heard him correctly -- I mean, maybe I didn't -- if I heard him correctly, he said, "It's not going to happen." In that case, obviously, if something doesn't happen, then there's no consequence, right? So, is that what you're saying?

Ian Bremmer:

Yeah.

Yasheng Huang:

But if it were to happen, I think both sides would lose.

John Donovan:

Okay, I'm glad we could bring that discussion to such clarity on that point, because -- thank you, because that concludes debate on this third resolution, "The U.S. and China will both Lose the Trade War."

[applause]

So now, members of our live audience here in New York, it's time for you to tell us which side you have found most persuasive on all of these arguments. It's complicated, because there were three of them, and not everybody was making exactly the same arguments. But we want to know, on the whole, did you swing more to, "Yes," or more to, "No," from your starting positions.

01:14:59

And it will only take us a couple of minutes to tabulate that and tell us which way things swung here. But while you're doing that, the first thing I would like to do is congratulate the five of you for being really engaging. This was not necessarily the most -- the lightest topic to take on, but you made it informative, and interesting, and educational, and fun. And you did it with respect, and good spirit, and with facts and logic. We like all of that. So, for bringing all of that to our stage, I really want to thank you one more time with a round of applause from everybody.

[applause]

And also, while the results are being tabulated, I'd like to ask you a question that's tangential to the moment that we're in. It has to do with North Korea. This is not for competition. I just want to hear briefly from all of you. And President Trump and the fact that we're on the eve of another meeting between President Trump and North Korea's leader, Kim Jong Un, will -- in relation to the China conversation we're having, do you see this conversation, this meeting, impacting everything we're talking about in regard to China?

01:15:46

I'll start with you, Parag.

Parag Khanna:

Yeah, indirectly, yes, I mean, because I think if there is going to be, as a first step -- and that's what people are talking about right now, some kind of step towards a formal declaration of an end to the Korean War that involves North Korea, South Korea, the U.S., and China as well, that plus -- and I -- because we don't really believe that there's going to be full denuclearization anytime soon, but each step they make towards reconciliation between North and South Korea is meant to squeeze the U.S. a bit more in terms of delegitimizing or reducing the justification for American forces to be stationed there.

And that, therefore, means -- potentially you could read it to mean that China's influence is going to grow as the peninsula stabilizes.

01:16:58

John Donovan:
Michele, how about you?

Michele Flournoy:
I agree with that, but I think as long as North Korea is clearly a nuclear power, they aren't denuclearizing, there's going to be justifications for U.S. forces to remain with our ally, South Korea. Excuse me.

John Donovan:
And Susan?

Susan Thornton:
Yeah, I'm very hopeful that this meeting will lead to something positive, because I see, on the world stage today, that it's about the only place that we're still doing diplomacy.

And I think we're getting a lot of global positive benefits from that in our soft power -- but I do think that China looks at the summit and is both worried and encouraging. They're worried because they don't want us to go too fast; they don't want to be left out. But they are also -- this is a big security problem for them right on their border, so they would like to see things sustainable, stable track, which they think this diplomacy will hopefully lead to.

01:17:58

John Donovan:
And Yasheng?

Yasheng Huang:
I think China will benefit if there's an understanding [unintelligible] between North Korea and the United States. North Korea has been a complicating factor in the relationship between China and the United States. I think for Xi Jinping, he really wants this thing to go away so then he can deal with the United States on his own terms.

John Donovan:
What do you think is realistic in terms of coming out of this meeting with [unintelligible]?

Yasheng Huang:
Well, I think China probably has played a role, right? So, the North Korean leader visited China a number of times, and China has become more proactive in managing the North relationship and the policy position towards the United States. So, I think China wants a deal rather than not seeing a deal.

John Donovan:
Ian?

Ian Bremmer:

I feel good short-term about where all this diplomacy is going, but let's be clear that the North Koreans have only advanced both their nuclear and ballistic missile programs while this diplomacy has gone on.

01:18:57

They're still engaged in human trafficking; they're still engaged in extraordinary criminal activity directed at American banks and Europeans and all the rest. And that is a problem that we can paper over with a great summit in Vietnam, and Trump is going to deal with the strategy behind it, but it is growing as a strategic concern for the Americans and for others in this region, and I think we should remember that.

John Donovan:

Why -- so -- but why do you say you feel good in the short term for all this diplomacy [unintelligible].

Ian Bremmer:

Because the things that Trump is prepared to give away -- I mean, the fact that, like, having a summit with Kim Jong-Un, which other presidents considered to be a big give -- Trump sees that as something cool for him because no one else has done it before. I'm talking about stopping the exercises with the South Koreans. Other presidents would consider that a big give to the North Koreans. Trump is like, "That's expensive. Why are we doing that?" Even potentially talking about reducing, at least at the margins, American forces in South Korea -- it's fairly easy for Trump to make some gives that the North Koreans are going to be pretty damn happy about -- by the way, so will the Chinese -- that allow in the near term this to feel pretty good.

01:19:49

But we're not actually fixing the problem. By the way, kind of analogous to the way we're going to feel about this U.S.-China trade deal coming in the next few weeks.

John Donovan:

All right. So, thank you on that. So, I do now have the results of the votes. Remember, you voted twice on all three resolutions. And what we're looking at is the swing from one side to the other. So, on the first resolution, which was, "The Next Silicon Valley Will be in China," before the vote, 55 percent voted Yes, and 45 percent voted No. The vote afterwards -- 69 percent voted Yes and 31 percent voted No. On that one, we see a swing -- big swing towards the Yes side. On the second resolution, "The Belt and Road Initiative is a Trillion-Dollar Blunder," on the first vote, 34 percent voted Yes.

01:20:56

66 percent voted No. Afterwards, 39 percent voted Yes, 61 percent voted No. Again, a swing toward the Yes side, of 5 percent. And finally, "The U.S. and China Will Both Lose the Trade War." Before, the vote was 40 percent. The second -- for Yes. 60 percent for No.

Afterwards, the vote was 49 percent for Yes, 51 percent for No. Again, a swing to the Yes side. If you can keep track of which of these debaters argued Yes -- [laughter] -- because I can't -- actually, I've got four of them right there -- on this round and on all the other rounds, those of you who argued Yes, congratulations to you.

And again, thank you for what you did for us tonight. It was terrific. And thank you for being a wonderful audience. Good night.

[applause]

[end of transcript]

This is a rough transcript. Please excuse any errors.