

FEATURE



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What America Needs to Know About China

To paraphrase Secretary Paulson from his Foreign Affairs article about China, —I want to help you *see the country as it actually is, not as many Americans imagine it to be.*

By George Koo
Delivered at Pitzer College

Thank you for coming to hear what I have to say about China and about the U.S. China bilateral relations. As a business consultant, I have been going to China regularly for the last 30 years, essentially from the beginning of China's economic reform. My first personal visit to China actually took place in 1974, during the height of the Great Cultural Revolution. I certainly have enjoyed a ringside seat watching China's amazing transition and transformation during this period.

In my early trips into China, I would be interviewed by the CIA and the FBI upon my return. They would want to know whom I saw, what we talked about and so on. I was happy to tell them all I knew because from the start, I thought I had a mission, which was to explain China to Americans and America to the Chinese. I felt that I was in the position to act as a bridge between the two countries that meant the most to me.

Thirty years later, some things have not changed much. In particular, there remains a lot about China that America does not understand and I continue to feel that the role of a cultural intermediary is as relevant as ever. So it is today that I am here to describe and explain some things about China that America needs to know and understand—such understanding being crucial to the development of a healthy bilateral relationship. As the two arguably most powerful



Chinese Premier Wen Jiabao met with U.S. Treasury Secretary Henry M. Paulson.

nations and economies in the world, a strong positive bilateral relationship is important not only to the peoples of the two countries but to a peaceful world.

I might also add that given the recent financial turmoil on Wall Street and the increasing importance of China, holding close to \$1 trillion or our treasury notes and government debt, it becomes increasingly relevant that we develop a measure of respect for someone that is likely to end up owning a bit of America in exchange for bailing us out of our financial excesses.

My talk today is not about western media distortion of China or the biases of western politicians. If it is, I would be on the podium for hours. What I hope to do is to take you outside of your customary American frame of reference. I would like to present some data and thoughts that would automatically counter many of the preconceptions of China that you have grown up with. To paraphrase Secretary Paulson from his Foreign Affairs article about China, I want to help you *see the country as it actually is, not as many Americans imagine it to be*. If I can persuade you to rethink about China, I would feel that I have accomplished something worthwhile today.

Olympics Aftermath

Let's start with the Olympics. By most accounts, the Beijing Olympics was an

overwhelming success. Certainly, the people of China, and for that matter most of the overseas ethnic Chinese, are rightfully proud of the number of gold and medals the Chinese athletes won. But frankly, that was not the most significant achievement in my mind. Considering that Australia won 42 medals with a population of 21 million, that's two medals for every million population. To attain parity on a per capita basis, the U.S. would have to win more than five times their actual tally. For China, they would have to sweep every event and then supplement with plenty of knock-offs to meet that standard. On the other hand, if one were to measure achievement against the level of economic development, Ethiopia, Jamaica and Georgia would come in first, second and third.

There are many ways to slice and dice the Olympic outcome, but more important in my mind, is that billions of people in the world have tuned in and caught a glimpse of today's China for possibly their first time without the filter of the western media or political leaders or the bias of some religious cult. I thought NBC did a good job of introducing some of China's culture to their viewing audience, particularly short vignettes such as Shaolin martial arts by Mary Carillo and hand pulled noodles by Martin Yan. I was also impressed with GE and their commercials specially done just for the Olympics— sort of like commercials geared just for the Super Bowls— using authentic Chinese backdrops and storylines to make their point.

Despite all the anti-Olympic torch rallies and sentiments advocating another Olympic boycott, some even went so far as to call this the "genocide Olympics," a record number of 100 heads of state representing 80 different countries attended the opening ceremony. They did not witness any slaughter of innocents but did see that the Chinese could really put on a show and raised the bar that likely will stand for many future Olympics. I am glad that Mr. Steven Spielberg was not involved so as not to confuse the minds of the viewers as to who contributed what. The visitors left after seeing a virtually flawless



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execution of a 16-day event. The 10,000 athletes from around world went home with, I am sure, memories to last a life time.

The 30,000 some different perspectives and events to write about and most, by and large, will further understanding between the East and West. The worst example of going out of his way to look for dirt under the carpet, that I happened to have read, was a near hysteric blog on ESPN accusing Beijing of a cover-up because a building under construction was draped by a beautifully

decorated plastic sheet to hide the construction in progress underneath. Why an attempt to present a more pleasant public appearance became an excuse to blacken China is something I do not journalists found understand.

The Chinese Spy that Never Was

How many of you read *Physics Today* regularly? In the September issue, there is an article written by the former Secretary of Air Force talking about the period in the late '80s and early '90s when Chinese scientists were attending scientific conferences in the U.S. As the testimony at the Cox Committee hearing later revealed, the American authorities regarded these attendances as intelligence gathering on the part of the Chinese. Actually, just opposite was going on, the visitors, according to Thomas Reed, the author, was trying to find ways to let America know what China was doing in nuclear weapon development.

These visitors found Danny Stillman, a nuclear weapon scientist at Los Alamos who was charged with gathering intelligence on China's weapon development— a polite way of saying that he was a spy. Stillman was eager to meet and talk to the Chinese visitors, who in turn invited Stillman to visit China. Through a series of visits over months to various secret facilities including the nuclear testing grounds, Stillman came away thoroughly impressed with what China had done. He put all his trip reports together into a cohesive tome and sought permission to publish his book. The US. government said no.

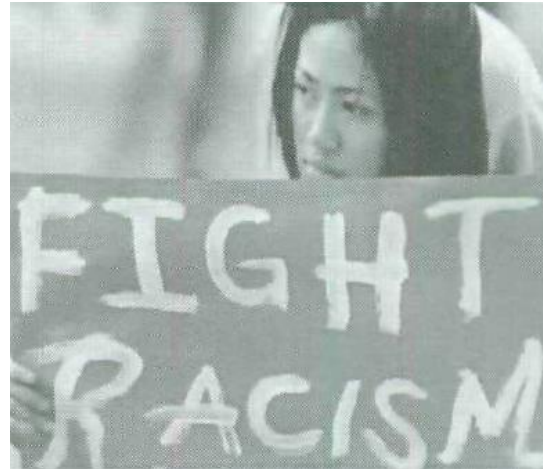
Stillman's timing was bad. The Congressional Committee headed by then Representative Christopher Cox had just concluded that America was running wild with Chinese spies, that every Chinese company was a front to steal secrets from America. And then Dr. Wen Ho Lee was identified as the one who leaked W-88 multi head missile technology to China. It would have contradicted all that and-China rhetoric if Stillman's book were to come out saying that China detonated their first atomic bomb in 1964 and in a mere 32 months their first

H-bomb and launched their first unmanned satellite in 1970. The unacceptable conclusion would have been that China has independently developed their first class nuclear weaponry all along—all of it having taken place well before Nixon went to China in 1972 and before exchanges were taking place between the two countries. Stillman's book had to be suppressed as it would have taken the hot air out of the hysterical China bashing balloon floating around Washington from 1998 to 2000.

Why, you might ask, did the Chinese want to expose their nuclear secrets to the U.S.? I think the answer is very simple. How can you have a nuclear deterrence if the other side doesn't know that you have the capability to deter? China has consistently declined to join the arms race to see who can pile up the larger heap of ever more sophisticated arms. But once in a while, I think, China feels that Washington and the Pentagon need to be updated and be informed that China has a credible 2nd strike capability to retaliate and enter that data into their calculations when they plot the course to world domination. Of course, this leads to the question of whether the DoD's current expanding defense budget makes any sense, which we can discuss in the Q&A if you wish.

America's Racism

Personally I am acutely aware of the historic racial bias of the American authorities towards the ethnic Chinese in America as exemplified by the Congressional hearings and by the case of Wen Ho Lee, where after 9 months of solitary confinement, all the charges against him were dropped except for one, and that was for not following lab procedure and downloading files from office computer to home computer. Just think, nine months of solitary confinement for downloading computer files against procedure. The special agent of the FBI involved in this case had to admit in court that he lied. The presiding judge apologized to Dr. Lee on behalf of the government for their misconduct. It had to be one of the more embarrassing chapters of American justice.



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Lest you think the Wen Ho Lee case was an isolated aberration, it is not. I live in Silicon Valley and there are frequent cases of miscarriage of justice and official intimidation. Recently, there was a Bill Chen originally from China who was appointed sales manager to sell vibration tables to China. The government accused him of selling the tables to a missile building facility when his sales report indicated that they went to a locomotive factory. Originally his employer supported his defense but then the government quietly informed the company that if they plan to sell any more tables to the American Air Force, they better withdraw their support. The company had to fire him. He was in limbo for some time before the government dropped all charges. The last public statement he made to the local press last year was that his career was ruined and he was taking his family back to China.

Just earlier this year, there was a case involving another PhD whose expertise was in

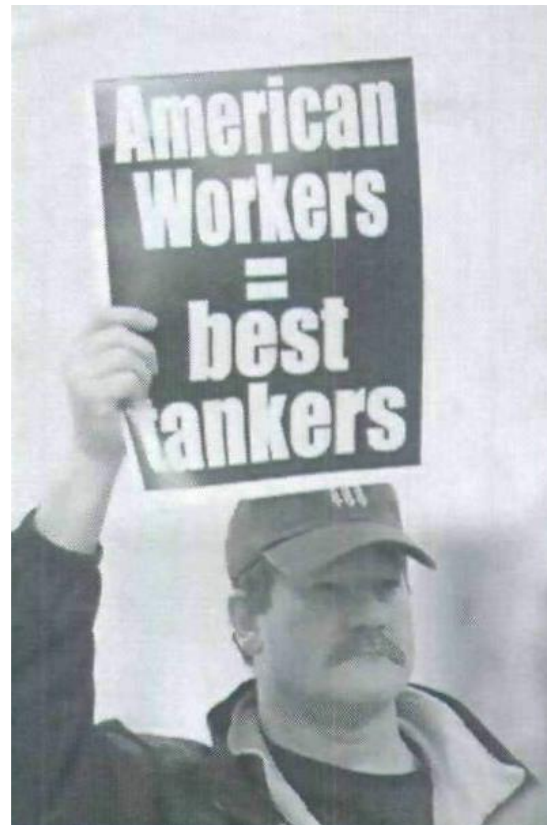
agriculture remote sensing, involving the use of satellite data to predict crop harvest, and had been in this country for 20 years. He came to the U.S. from China to study for his PhD. Most recently he worked for a contract research organization analyzing publicly available satellite data to quantify global climate changes for NASA at its facility in Mountain View. His work had no connection to national security. He even got clearance for his ID badge to enter NASA at will. Then the FBI came to interview him, followed by a lie detector test and then two more interviews, at the end of which he was escorted off the premises and fired. He never could figure out why the FBI came to see him and on what grounds he was dismissed. The only explanation I could offer him was that the special-agent-in-charge of Silicon Valley had told BBC in a public interview that the valley was crawling with spies from China and that every working Chinese was a potential security risk.

There are, of course, costs associated with the national practice of racial profiling. Let me ask you, which universities and colleges do you think, have sent the most number of graduates on to obtain a doctorate degree in America? If you guess UC Berkeley, you would be close but incorrect. According to National Science Foundation's latest compilation, in 2006, the latest year of the survey, the two schools that contributed the most number of Bachelor degree holders that went on to earn a doctorate degree in the United States (in science or engineering) was Tsinghua and Beijing University. This is the first time in history where two Chinese institutions of higher learning out supplied the American universities. Berkeley was third. Over the period of 1999 to 2006, over 26 thousand doctorates earned their undergraduate degrees from China. For 2006, the latest year reported, for every 6 that got their undergraduate training from the U.S., one more came from China. So the question to ponder is this; Given the racist attitudes that prevail, how many of these PhD's would remain in the U.S. after getting their degree, and of those

that remain how many would risk their careers by working in a national laboratory?

Shipping Jobs Overseas

This bias against ethnic Chinese in this country has been around since the 19th century. This prejudice is tied to how we feel about China which is why I personally want to do what I can



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to counter the China bashing rhetoric by our political leaders. The first one I would like to tackle is the question of so-called "shipping jobs overseas." According to the National Association of Manufacturers, manufacturing from the U.S. contributes 22% of the total global output with a workforce of about 14 million, by far the leader of the world. China, the rising manufacturing power that we love to demonize, contributes just 8% and with a workforce as large as 100 million if the migrant workers in rural industries are included— 22% with 14 million versus 8% with 100 million, that is roughly 20-fold difference in productivity. It should immediately become obvious that there is no way that the American worker would be willing to take a humongous pay cut to do the low paying jobs being done in China. The Chinese might wish to move up the value chain and take over the American job but their productivity (and capability) has a long way to go. The next time you hear about shipping jobs overseas, you should challenge the Speaker not to sprout nonsense.

China's emergence in becoming the global factory really began in earnest when China entered WTO (World Trade Organization) in 2001. In order to conform to the stipulations of membership, China had to stop subsidizing inefficient, state-owned enterprises and let some of them go belly up. They knew that the price to be paid was to put around 30 million of their workers out on the

streets. Led by Premier Zhu Rongji, China accepted the pain because they saw the long-term benefits of competing in the global market. China made the right choice and hopefully America will also have the courage to make the hard decisions

necessary to overcome their current economic dilemma. Blaming China is not going to cut it.

China, the Polluter

Now, China's rapid economic development does come at a price and the most serious would be the environmental cost. In recent weeks, lambasting China for runaway pollution damage has become a fashionable diatribe for the politicians. They seem offended that China is soon going to overtake us as the biggest polluter in the world. Our political leaders say: "How dare the Chinese insist that we take the lead in pollution abatement before they, India and the rest of developing countries take corrective measures?"

I used to think well, the politicians have a point there. But then a July 31, 2008 press release from the The Climate Group caught my attention. The lead paragraph of this press release said. "China is already the world's leading renewable energy producer and is over taking more

developed economies in the exploiting valuable economic opportunities, creating green collar jobs and leading development of critical low carbon technologies." The report goes on to say that China has the advantage of low cost, a clear policy framework, a dynamic and entrepreneurial



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business environment and plenty of abatement opportunities. I must admit until I read the report, I didn't know that China is already a leader in the Green revolution. That China is already a world leader in the manufacture of solar panels and wind turbines. That China is introducing fuel efficiency standards for cars which are 40% higher than those in the US. Forty percent! While Washington continues to talk about going green, China has been doing something about it. I have no expertise on China's effort to go green and I was really surprised by the strong definitive statements from this non-profit organization, organized in 2004 in multiple countries to promote a green and clean earth. However, in recent separate visits to Beijing, my friends and I can testify to seeing blue sides, so there must be something to this report.

Human Rights & Democracy

Now let's talk about human rights and democracy. First, I find it ironic that the country who perpetrated Abu Ghraib, Guantanamo and the fine art of waterboarding should be the leading critic of others facing their own set of human rights challenges. I believe that at the very least, the very visible and prompt manner that authorities came to the rescue of the unfortunate victims of the giant earthquake in Sichuan showed to the world that the Chinese government is not a callous body but cares as much about its people as any responsible government.

There are at least 56 ethnic groups living in peaceful co-existence inside China. Official policies go out of their way to favor the 55 ethnic minorities such as no single child restrictions and a Chinese version of affirmative action that makes it easier for minorities to get a higher education. During my travels inside China, I have met folks that are half Han and half another minority. Invariably when they fill out their residence registration (*bukou*), they claim to be the minority and not a Han majority' in order to take advantage of the more favorable conditions. I cannot recall ever talking to a Chinese citizen that disparages another because of the other person's ethnicity. Conversely, every minority

person will openly admit that they belong to Bai, or Miao, or Korean, or Hui, or Mongolian, or Tibetan, or whatever minority in the course of normal conversation. They can be proud of who they are and do not feel that they need to hide their ethnic identity.

We do blanch at how quickly China carried out the executions of the condemned. It's sort of "one strike and you're out." But it is not our place to condone or condemn China's administration of justice. They have a huge population to deal with and how to maintain order and stability in such a society is beyond our American experience and expertise. Human rights abuses abound in China, such as children in sweat shops, slave labor camps, tainted blood transfusions, toxic baby formulas and so on. These are appalling



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situations, but it's important to bear in mind that the Chinese government is combating the problems and not condoning them—no more than the U.S. government condoning many of the human right abuses in this country.

The city of Shenzhen bordering Hong Kong, which a quarter of a century ago was nothing more than rice paddies and fishing boats, has been the greatest experiment since China launched its reform. Up to now, the reform is most visible economically, but they have just announced that the mayor will be the first of China's major cities to be elected and not appointed. This is a major step for China.

Chinese officials have been talking about democracy even back in Mao days but always within a single political party and not in a pluralistic framework. We Americans have trouble understanding the seeming contradiction of a democracy functioning within a single party rule. We are befuddled, I think, partly because we are accustomed to associating exercise of democracy with serious fundraising and that money is what makes democracy go around.

But there is something to be said about the Chinese system of governing. Leaders are judged and promoted based on the merits of their past performance. They are tested every step along the way. They rise to the top, not dependent on their lineage and on their cronies and public persona. In their selection process, the candidate who knows how to stay low key and keep a low profile {di diao in Chinese) is more likely to be promoted over the handsome, flamboyant and dynamic orator. These promotions came not because of unilateral decisions of a strong man but through consensus, compromise and horse trading between various factions.

China's Foreign Policy

China's foreign policy is also diametrically different from the U.S. China has insisted on non-interference of the internal affairs and non-infringement of the sovereignty of another country and to work within the confines of the United Nations. They have contributed

troops and police in 13 of 17 on-going UN Peacekeeping operations. Since 1990, China has contributed 9000 peacekeepers in 22 UN operations, more than the combined total of the other four permanent members of the Security Council. As of the end of 2007, China has exercised its veto power on the Security Council a total of 6 times since they joined that body. During that same period, USSR/Russia cast 123 vetoes, the U.S. 80 times, UK 32 and France 18.

I would like to describe just one example of China's foreign policy based on the exercise of soft power and on the principle of mutual benefit. About a year ago, China signed a deal with Congo to work on infrastructure projects in accordance with the Congo government's priorities, which were water, electricity, education, health and transportation. The total cost will exceed \$9 billion, far more than Congo's annual budget of \$1.3 billion. To pay for the infrastructure investment, China formed a JV with Congo to extract copper, nickel and cobalt, a \$3 billion investment. Presumably, the Congo side will pay for their share of the investment with their share of the extracted minerals. Other parts of the deal include technology transfer and training of Congolese staff, work on social welfare and environment and subcontracting certain work to local Congolese companies.

The deal is neither colonial exploitation nor charity to a destitute developing nation. China is not telling the Congo government how to run their country and make no judgment on whether the government is to their liking. Instead, they just structured a win-win arrangement that will make a difference in Congo quickly. The World Bank considers Congo one of the worst countries to conduct business. So the success of this cooperation is not assured. Hopefully the Congolese people will soon see and reap the benefits of this outcome.

The West likes to hold China responsible for Darfur. The premise seems to be that China is doing business with the Sudan government and Sudan government is using the revenue to

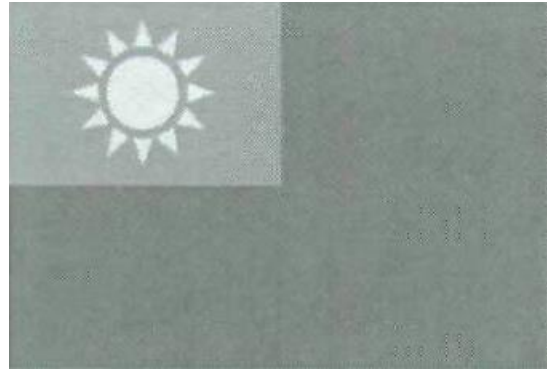
commit genocide in Darfur. But China is not the only country doing a lot of business in Sudan. India, Japan and Russia are also major players. Furthermore, many years before China was involved in Sudan, the U.S. was there. The CIA backed the other faction and when that faction did not win control of the government, conflict resulted which gradually moved to the Darfur region. Needless to say, conflict takes two opposing parties, in this case the Sudanese government and the rebel faction. Since we Americans are backing the rebels, the government must be the bad guys. Just ask Mia Farrow.

At least last year, China was able to persuade the Sudan government to allow a 20,000 strong UN-AU peacekeeping force into the Darfur region, and China took the lead in contributing peace keepers to the force. Unfortunately the force has not been effective, in part because other UN member and African nations have been slow to contribute their share of personnel. Everybody bears some responsibility for the tragedy that is Darfur, it is too easy just to fault China.

I would like to make a brief comment about Taiwan and Tibet so that we can move on to the Q&A, which is my favorite part of the program.

Taiwan & China

Taiwan has been economically integrated with the mainland for well over a decade. Taiwan is either the largest or second largest source of foreign direct investment in China. Entrepreneurs from Taiwan have made millions, and at least one billionaire, from China. Today, over one million Taiwanese live and work in China. Taiwan's productizing expertise and understanding of the world market coupled with China's manufacturing prowess has been a powerful amalgamation of complementary strengths. Taiwan's early factories in China served as the foundation of China's manufacturing strength. In turn, the components and sub-assemblies shipped from Taiwan across the straits for final assembly



Unfortunately for Taiwan, the last eight years under President Chen Shui-bian has been an absolute disaster. He did not care about how to manage Taiwan's comparative advantages. He was much too busy figuring out ways to line his and his family's pockets.

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every year has earned Taiwan a trade surplus that has always exceeded the total trade deficit incurred with the rest of the world. The common culture, language and ethnicity across the straits have made the synergy a natural outcome.

Unfortunately for Taiwan, the last eight year under President Chen Shui-bian has been an absolute disaster. He did not care about how to manage Taiwan's comparative advantages. He was much too busy figuring out ways to line his and his family's pockets. He and his immediate family are currently under investigation for various money laundering schemes, hidden Swiss accounts and bogus accounts in Singapore, the U.S. and who knows where. Having stepped down, Chen lost his presidential immunity' and the investigators are hot after many leads. The Taiwan stock market seems unable to get out of the free fall as nervous investors wonder how many of the listed companies are waiting to be implicated by the radiating circle of wrongdoing. It didn't help that the incoming president Ma Ying-jeou campaigned on the promise of a quick turn-around in Taiwan's economy. The voters took him literally and expected miracles in his first 100 days in office, and he has not delivered. It is fair to assume that he did not anticipate a financial scandal as he stepped into office.

Tibet & China

The Dalai Lama is an excellent proselytizer for Lamaism, a form of Buddhism— based on animism— indigenous to Tibet. In the case of His Holiness, admirers in the West seem willing to overlook the principles of

separation of church and state. No doubt he is the religious leader of a majority (but not all) of the Tibetans. As a secular leader, he represents perhaps the 5% of the population that formerly belonged to the privileged ruling class. In his day, the other 95% were serfs and had no rights whatsoever. Today, China has invested heavily in the infrastructure and offered every Tibetan the opportunity to an education and the freedom to make a decent living by the dint of his/her own efforts. When Dalai Lama ruled Tibet, the average life expectancy was not even 36 years of age, now it's 67; still less than China's national average but far better than what it was. Today, Dalai Lama cannot legitimately champion the human rights of the Tibetan masses that had no rights when he was the titular ruler. I am planning to visit Tibet next year. Perhaps I will have more to say about this matter then.



Today, China has invested heavily in the infrastructure and offered every Tibetan the opportunity to an education and the freedom to make a decent living by the dint of his/her own efforts.

At the beginning of my talk, I proposed raising a perspective about China different from the mainstream to stimulate your interest. I hope I have been provocative enough for this audience. I don't know why it is that China is the favorite punching bag in the West—sometimes, I refer China as the go to piñata—but I believe this attitude is in for some adjustment. Let me quickly raise some other issues without elaboration to round out our topic.

- China has just put three astronauts in space along with a space walk and has plans to go to the moon. Heretofore, the US. has specifically excluded China from the space consortium membership that included Russia. Now NASA has been quietly meeting with China's space

officials about cooperation and leverage from technology that China has developed that NASA does not own. If we weren't so darn sure that the Chinese needs to steal everything from us, we might have come to this realization sooner.

- China has steadfastly been buying U.S. treasury bills and agency notes and now owns close to 11 trillion of American debt. They have been buying even as Japan has been decreasing their holding for the very practical reason that the dollar is worth less and less. If you ask, the Treasury Department officials will privately admit to you that without China's financial support, our economy would be in worse shape than it is.

- The Bush Administration made a hash of the relationship with North Korea. Without China's assistance and leadership, the situation would be even more unstable than it is now.

- China built their Great Wall to keep foreigners out. They do not have the mentality' or a history of conquering and occupying other countries. If that is the U.S. goal, China is unlikely to stand in the way. There is no need to regard China as an adversary' so long we do not insist on their seeing everything our way.

- Just as China is rapidly becoming one of the most popular tourist destinations, China is also fast becoming the largest source of international tourists. Europeans will tell you that tourists from China are bigger spenders than Americans or Japanese. Until recently, we did not welcome tourists from China. This situation is changing to the potential benefit of our local economy.

- Just as China has become America's largest source of foreign graduate students, China is also becoming a popular destination for foreign student. According to the most recent tally, China is the 6th most popular destination of the world for students going abroad. I hope some of you will take advantage study abroad opportunities to go to China and see for yourself With more exchange of people will come improved mutual understanding and more acceptance of the other and different points of view and way of life. I

believe this is important to the prospects of attaining world peace.

Now, I want to thank you for your attention and I welcome the opportunity to extend our discussion in any manner you, the audience would like. Please do allow me one small commercial. Much of what I presented today has been elaborated under various entries in my blog. I invite you to visit www.georgekoo.com and to share with others. Thank you.