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5:10 — 5:55 PM MT

The China Challenge

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Alan F. Estevez, Under Secretary of Industry and Security, U.S. Department of Commerce

Anja Manuel, Executive Director, Aspen Strategy Group and Aspen Security Forum

Eric Schmidt, Chair, Special Competitive Studies Project; Former CEO of Google

Moderator: Demetri Sevastopulo, U.S.-China Correspondent, *Financial Times*

Session recording:

<https://www.youtube.com/watch?v=55C9BRX1E1A&list=PL7fuyfNu8jfPTKp6PJ2yJugSfxXEDyEqM&index=4>

Demetri Sevastopulo ([00:25](#)):

Thank you very much Niamh, and I dunno how you used your Irish magic powers to stop the rain, but thank you very much and if anyone has any problems understanding my Irish accent, Niamh will provide simultaneous interpretation. We're going to have a Q and A at the end for about 10 minutes, so please think of some questions and put your hand up at the end and identify yourself before you ask a question. But we're going to jump in. Eric, I'm going to start with you. In 2021, you were the chair of the US, excuse me, the National Security Commission on AI. You published a massive report. I remember it was about two inches thick. Someone very kindly delivered it to my home and it said that China was a US peer for many AI applications and it was a leader for some applications. So my question is how does the situation look today? What do you think have been the biggest developments in AI in both the US and China?

Eric Schmidt ([01:26](#)):

Had we issued that report today? You being a busy person would've simply fed it into Chat GPT to summarize it, 758 pages, this is progress. So we've all been working on the China problem for a long time and I think the big news is that the Trump decision followed by Biden's affirmation of that decision to limit access to specific chips was the right decision. We had recommended it in the report we did, but they actually took action and they took action very quickly and positively. There have been a series of adjustments, but roughly here's where we are. Two years ago there was a very important chip made by Nvidia called an A100. Today the closest that China can get to a 100 performance is the ones that they had, the ones they've stolen and then clones, which are not as good. This is a profoundly important problem for them. It's driving them absolutely bonkers today. One way to understand the performance difference is we collectively are at two to three times the performance. Now why does CHIP performance matter? It matters a lot because these systems are these huge supercomputers and the gains that occur occur unpredictably as you increase in scale. And so they can't get to the level we are without an enormous amount of capital and it's very difficult or they can steal it or copy it in some complicated way. With the Blackwell chip, which, and we're using Nvidia as the example which comes out in volume next year, that gap will be a factor of five and then the factor will be another factor

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because another doubling, it'll be a factor of 10. That is a huge policy issue consistent, and I'll just summarize the rest, there's a lot more to say in addition to that fact. It's incredibly important you have other things going on. There's been an enormous reduction in foreign direct investment in particular venture capital. The valuations which have historically in China been higher than in the US, are now significantly lower than the US and they're not going up. Furthermore, there are only two companies, this is Alibaba and Ant that are doing any significant foundation model, which are the big models. I said,

Demetri Sevastopulo ([03:54](#)):

That's Xi Jinping. I

Eric Schmidt ([03:55](#)):

I said, no, no, no. That was actually the government saying you said the word byte dance and we banned them. Okay, so anyway, so just to finish up, you have the byte dance and Alibaba are doing significant foundation model training. Even the other big ones are not, the startups are struggling. And so for all of the doom and gloom that I had said two years ago because I was very concerned that the software architectures in China would catch up, I think a reasonable conclusion is very important is that there will not be another global standard platform that will be a unified platform like Byte dance and TikTok in the future. That in fact China will build stuff for its ecosystem and the rest will, and that is a very big deal for them because we are bigger in aggregate than they are in scale matters. So overall we're in much better shape than I expected. This is not true in all the other technological areas. We're all familiar with electronic vehicle issues and batteries and things like that where China's done a fantastic job. There's all sorts of issues in there, but in AI we're doing well. Someone is really unhappy about byte dance.

Demetri Sevastopulo ([05:17](#)):

But if the Chinese Communist party can control the weather, then we have bigger problems than AI. But anyway, Alan, I'm going to jump from what Eric said to you. You are one of the most important people in the government who is promoting what Jake Sullivan calls a small yard high fence strategy. Could you explain very briefly to people to lay people what that is? Where do you think it's working and where are the key challenges as you look down the road now?

Alan F. Estevez ([05:44](#)):

So thank you on. Yep, thanks Dimitri and thank you Eric for noting our chip controls.

Eric Schmidt ([05:52](#)):

Good job

Alan F. Estevez ([05:53](#)):

And more to be done

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Eric Schmidt ([05:54](#)):

There. We need to say more thank yous to the government.

Alan F. Estevez ([06:01](#)):

It's a tough job Ania job. Well, it's not just the chip controls that we put on so small yard when we are controlling just a few handful of high end chips that are really good for training large language artificial intelligence models. So the vast majority of chips that are made in the world or made by US companies or Korean companies, Japanese companies are free to flow to China without any kind of licensing but a select few at a certain level of capability we've put controls on and not only did we control those chips, we control the manufacturing equipment that can make those chips, which is incredibly important as well because given the right equipment, China could produce their own chips. I mean they have the capability, they have the capacity, they have the engineers, they don't have hundreds of years or I shouldn't say hundreds, they don't have the long time of expertise of say TSMC, but they're willing to hire people from TSMC in order to do that. So controlling the manufacturing equipment is incredibly important.

([07:17](#)):

And again, it's not all manufacturing equipment, it's just a certain level of manufacturing equipment that we're controlling now. So that's the small yard high fence thing. Now with that, all that said, we can't let rest on our laurels. I always say I'm in Aspen, so I probably have broken my paranoid bubble, but in Washington I live in a paranoid bubble and I'm paid to live in that paranoid bubble thinking about what's going to go on next. So we're always looking, they can make a, Huawei can make a decent chip, it's not quite as good as an A 100, but it's a decent AI chip called an ascend nine, 10 B. They're doing that through brute force. It's not the best method and process for making those chips, but they're working on those processes. So we're always looking, well, if they're doing that, what should we be doing that also needs to be protected in that small yard high fence. Lemme stop there.

Demetri Sevastopulo ([08:18](#)):

I'm just going to go kind of link two things that you said and Eric said if you look to last year when Gina Raimondo the commerce sector, your boss was in China, Huawei took the opportunity to roll out a very advanced smartphone using a very advanced chip. My question is, was that China surprising the US and actually managing to get around the export controls or when you put the export controls in place, did you think that Huawei would be able to do something like that?

Alan F. Estevez ([08:48](#)):

So again, the controls are not a damned up river. We need to keep producing and innovating on our end of this. The chip that's in that WowWay phone, which is not that concerning to me as opposed to the AI chips that they're capable of making is not as good as the chip that was in that WowWay phone in 2019. I'll take that as a success nonetheless. Again, as I said, they have capability, they have capacity, they're willing to throw a lot of money at it. They're willing to do things that are not economically viable if you

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are trying to run a real business, but that the state is subsidizing and they're taking advantage of that and they're going to keep advancing and we need to keep advancing ahead of that.

Demetri Sevastopulo ([09:30](#)):

Eric, you wanted to jump in

Eric Schmidt ([09:31](#)):

Just to compliment you further, the genius of your strategy is that you found a monopoly that exists in one company in the world that we had control over, which is A SML. And that decision allowed you to then put the regime in place. We, it's important to state and this because covered it so long, the entanglement of China and the US is profound and in fact everyone complains about China, but our trade with China is going up and everything we do to try to prevent things China can nullify. In other words, if you think about the sanctions on Russia over Ukraine, China just instead of having iPhones in Russia, they have Chinese phones which are quite good. The key is to find control points that the Chinese cannot replicate and unfortunately software is not one of them and common chips is another one that doesn't work. That's the secret and the brilliance of what they did.

Demetri Sevastopulo ([10:32](#)):

So Ania and Steven a minute. I want to zoom out from tech and look more broadly at business concerns and how American and multilateral companies are dealing with China, but can you both just address first, how do you think companies are dealing with the US China tech competition when the US is taking measures as Alan described, but China is also doing things as well. So how are companies in general looking at this problem?

Anja Manuel ([10:53](#)):

Yeah, thank you for that question and let me just take a little bit of a step back for this highly educated audience here. Let's keep sight of the goal. The country that leads in technology tends to lead the world. Roman roads, Chinese gunpowder, British steamships and so on and so forth. The United States and our friends and allies have been the undisputed technology leaders for decades. And now we have someone who's running the race and running really fast and that's China. So the goal here should be for the US and our friends and allies to run faster in this race. There's two ways to win a race. One, you hobble the other guy and Alan and team are working on that. There's another way to do it, which is to run faster ourselves. And this gets to what our companies are doing and I think this is what your question is getting to Dmitri.

([11:48](#)):

We need to remain the fastest and best innovation in the world. That used to be undisputed, but there's more that we can do to help. And I'll give you an example. There was an amazing show of bipartisanship a couple of years ago when the US Congress passed the Chips and Science Act. Alan Gina Raimondo team worked really hard on that. The chips part, which is to get some semiconductor manufacturing here is fully funded. It's moving ahead. They're doing a great job. The science piece, the US Congress appropriated authorized 175 billion for basic science r and d, but they haven't actually appropriated

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much of the funds, so we are way lower. Last year we gave the National Science Foundation and their partners something like 19 billion. China is doing 50 billion of r and d. So I just want us to keep sight of the other piece of it too, which is running faster,

Demetri Sevastopulo ([12:51](#)):

Steve?

Stephen Biegun ([12:52](#)):

Yeah, so I want to give some credit to the tech industry itself. I think it's after a slightly sluggish start and what was asked of the tech industry was to fundamentally redesigned their businesses. They've actually done a pretty good job and I have the full confidence the tech industry is going to abide by the laws and the policies are going to interact with people like Alan in order to shape those policies. But at the end of the day, they're going to follow those policies. They're also responding by relocating their production and their supply chains. They're taking the necessary steps to succeed in their businesses and to diversify the footprint of their businesses against various risks. At the same time, they're also going to be watching for the risk of retaliation in China. And China has begun to take steps to put pressure on those companies, export controls limits on market.

([13:44](#)):

And frankly, that's not new that for nearly a decade now, China has been systematically beginning to extract American technology from the Chinese economy. But nonetheless, many of these companies whose products will be inside that small yard will have other parts of their business that need the scale in the Russian market. And so they'll be watching for the risk of retaliation. Those companies will be looking to compete in the world and the competition in part means for them and particularly those parts of their businesses that are outside that small yard, there's going to need to be international cooperation on some of these policies because it's not going to help American companies if European or Japanese or Korean companies are moving into fill the markets. As the United States tech industry is excluded, they're also going to be looking to grow. And so developing and delivering scale for the tech industry and other places through initiatives with our trading partners in Asia and in Europe is incredibly important.

([14:44](#)):

And none of this is going to be easy. Just a couple of years ago, Anya and I participated in a discussion in Europe with European technology leaders and we were discussing how do we get that scale in the transatlantic market between the United States and Europe so that we can be independent, have a strong business foundation. And their reaction was, whoa, whoa, whoa, whoa, whoa. We don't want American companies coming in and conquering European technology markets. So we have to think long and hard about how we create a model and example to deliver that scale for our companies in the markets around the world.

Demetri Sevastopulo ([15:17](#)):

Anya, you wanted to add something? Yeah, I just

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Anja Manuel ([15:19](#)):

Want to add one point, and Steve made me think of it. You write all these amazing articles about decoupling de-risking. You should really all read Dmitri stuff. It's fantastic. It educates all of us. What is often left out is how much the Chinese are doing to back off from international cooperation. So it's always phrased as, oh, the US is doing this, but there is a directive called Directive 79, otherwise affectionately known as Delete America, where Chinese state-owned enterprises, governments and some of the biggest companies are being asked to take us, especially hardware out of their systems. Now they're moving to US software and some of our tech companies are losing huge market share. So this separation is real and I think no matter who's in the White House come January, that's only going to get more extreme.

Demetri Sevastopulo ([16:08](#)):

So good. Alan two follow-ups for you based on something that Anya and Steve both said, given that you're a current sitting government employee, you're going to suffer a little bit more. You have been to Japan and the Netherlands a lot. They make chip making tools, they're very important to compliment the export controls that the US has implemented. What do you want Japan and the Netherlands to do that they haven't done so far?

Alan F. Estevez ([16:36](#)):

Well first thanks for that Dimitri. And I also want to compliment you on your reporting. You're always fair in my space, which is not always true across the,

Demetri Sevastopulo ([16:45](#)):

There's going to be a lot of free drinks tonight. I feel though

Alan F. Estevez ([16:49](#)):

I in on that. That's how we roll Look, it's not just Japan and Netherlands, I want to say it's allied nations that have interests in the semiconductor ecosystem. Certain of those countries make certain tools or called out A-S-M-L-A little while ago. So we go to places where there's choke points, but there's others and there's key components of those tools that are made in other nations. So we're talking to lots of countries about here's the risk, here's the risk from China controlling and artificial intelligence capability inside their military complex that should frighten people and should frighten our allies. And it does frighten our allies. Now Steve's point, they are concerned about retaliation by China and they believe that we can absorb more retaliation than some of those countries can. And they're probably right about that given the nature of their economies. So we're cognizant of that and we're working with them A to make it a more broad brushed control in a multilateral sense, but at the same time making sure that we are actually controlling the things that can impede China's ability to design produce high-end artificial intelligence chips.

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Demetri Sevastopulo ([18:13](#)):

So the second thing I wanted to ask you was Anya said that one of the keys is for the US to run faster, and I think it was also last year on this stage maybe Pat Gelsinger from Intel and some others, there's an argument in Washington among some people in the business community that if you push the export controls too hard that the small yard is too big and the fence is too high, that it restricts the abilities of those companies to make easy money in China that they can then funnel back to the US to do more cutting edge research. Do you give any credence to that argument or have you dismissed it out of hand? Completely.

Alan F. Estevez ([18:49](#)):

Couple of things there. And to Anya's point, we do have to play offense and defense. That's the way we talk about it inside the Department of Commerce. I'm like middle linebacker people running the chips office or quarterbacks and running backs and the like or Alan Davidson is in the audience is doing broadband for all that's offense building capacity in the United States. But yeah, so we are definitely impacting revenue. On the other hand, as you said, China's working to Americanize their products in some part because of what we're doing, but in some part because they want to build their own capacity and from a national security perspective, I have to take that into account as a stronger point that we're protecting the long game here, not the short game. And frankly a lot of the companies that I'm impacting are still doing quite well in China.

Eric Schmidt ([19:45](#)):

Eric, can I answer on Alan's behalf since I'm such a fan and he can't say this. The thesis of your question is false. Nvidia last week was the most valuable company in the entire world. QED

Anja Manuel ([20:02](#)):

Think you're talking about that. The equipment manufacturers though,

Eric Schmidt ([20:05](#)):

Yes, and this is true, but China's trying to build its own equipment manufacturing system which is also hobbling them. And furthermore the equipment that's important that Alan restricted is the thing that's hard to build.

Demetri Sevastopulo ([20:20](#)):

So let's move away from tech for a little bit and look at, you're definitely getting free drinks. Am I?

Anja Manuel ([20:28](#)):

The commerce department is going to hire Eric Schmidt.

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Eric Schmidt ([20:30](#)):

There's a reason why you left Washington for the day.

Alan F. Estevez ([20:36](#)):

Best day I've had in a while.

Demetri Sevastopulo ([20:38](#)):

So let's zoom out a little bit and we can talk about Taan later, but look at kind of broader US China kind of business. Any you talked about de-risking think, I mean are we de-risking as a European commission President Ursula van, the term that she coined? Or do you think we are moving towards more of a broader decoupling in a nascent way? Where do you see things more broadly across a range of industries, not just tech?

Anja Manuel ([21:07](#)):

Yeah, thank you for asking that. We've been really solidly focused on technology, but if you look at the US China commercial relationship, it's actually pretty robust and I think that's a really important positive and we should keep it that way. So look on the negative side at the high point I think foreign direct investment in China was 300 plus billion last year. They eked out 33 billion net positive. So a lot of this has to do with the Chinese economy not doing as well as it did before, much less US investment in the Chinese economy. However, that hides some really big and important differences. And lemme just run through the range. If you start with agriculture, there's 1.4 billion people in China. They want safe, healthy food. They cannot produce enough on their own because they're drought prone, not enough arable land, they import a lot from the United States.

([22:06](#)):

I think something like 33 billion last year, that's a really good thing. We should keep that going. Moving along consumer products, there is no national security concern here. I have no concerns at all with Starbucks, with McDonald's, with Nike, with many of our brands doing well there and a lot of them are doing well and quietly expanding. Then if you keep going, the entertainment companies had a hard time because there was so much censorship. Now there's a little bit less in China, but that's soft power. Joe, I invented the term it's important. We need to have cultural connections. Then you move to financial services. The Chinese, were really rolling out the red carpet for our big banks and our private equity firms. I think that's a little bit harder and I think a lot of them have pulled back. You see their exposure to China dropping I think something like 25% and then you get all the way to what we've been talking about, which is technology where I think the de-risking decoupling is going to become more and more complete.

Demetri Sevastopulo ([23:05](#)):

Steve, do you want to add anything?

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Stephen Biegun ([23:09](#)):

The companies have a hard time with de-risking because they risk is by far the most corrosive factor in a business plan because you can't control for it. You can control for higher commodity prices and you can price for it in your product. You can control for higher labor prices and likewise price in your project, in your product over capacity. You can cut, you can do layoffs, you can cut production. There's ways to deal with a lot of things that challenge the business, but risk and undefined risk is incredibly challenging. And so companies will I think tend to go right from de-risking to decoupling because they can't find that sweet spot, that middle ground to kind of expose their business to risk. But not entirely. It's just not possible to capture risk with that kind of approach. There are things that help having clarity in the rules.

([24:08](#)):

Alan knows this, I'm sure he is heard it from many companies and quite honestly I've heard it from the Chinese as well. The Chinese have told me that in principle they're not opposed to the national security controls. They understand them and they would be hypocritical for them to challenge them anyway because they do the same thing. But their concern is that there'll be a creeping yard growing or an increasingly high fence and they kind of want to know where the lines are. Well that's what the business community is going to ask for too, that certainty and clarity so they can plan around their business and then that's how they'll de-risk. Risk.

Alan F. Estevez ([24:42](#)):

Sorry,

Eric Schmidt ([24:42](#)):

Eric, you I have actually a question for Anya. So if I listened to your list is correct, can you divide them into the following strategic industries and everything else? So let's imagine that if I listened to your list, you basically said technology was strategic and the other stuff is like fine. Is there any scenario we could get an agreement as to what's strategic? I'm worried that if we promote this idea that everyone will be strategic and so forth, in other words, as a governance and strategy perspective. Does that make any sense based on your understanding of how that works?

Anja Manuel ([25:20](#)):

I think it makes a lot of sense and from the US government perspective, I think you're trying really hard to define very carefully. We keep speaking for Alan, sorry, but to parse very carefully what is strategic and what impacts our national security and what doesn't should just be left alone. And I think it's actually not even all of technology, this you ran the biggest technology company out there, but there are bits and pieces in my view is we should continue to have people to people exchanges with China, we should continue to trading with China. It is important for it to be the connectivity between these two countries below the Chinese communist party because you need to have someone who's pushing back against

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their propaganda. And so the more narrowly we can define what's strategic, which I think is what you're arguing for, I think the better.

Alan F. Estevez ([26:14](#)):

And lemme just jump in there because

Anja Manuel ([26:17](#)):

You're

Alan F. Estevez ([26:17](#)):

Doing feel free to make these Allen by the way. It is a variation of technology. So I'm sitting next to a Boeing executive. We want Boeing to be able to sell 7 37 maxes in China. Absolutely. I don't want you to sell MQ 20 fives in China. That's pretty obvious. Don't worry. That's pretty obviously. And I want people to be able to sell avionics parts that are good for commercial in China, not good for military jets. So there's gradations in that. The list that you rattled off was a list that my boss Gene Raimondo could easily rattle off as well. Our shorthand version of this is promote what we can protect what we must and what we must is that small yard of the highest end of the tech, not all tech.

Demetri Sevastopulo ([27:07](#)):

So let's leave business aside for a second. Apologies to anyone in the business world, Steve and Anya. You've been involved in track two conversations with Chinese officials. Were eight months since San Francisco when Joe Biden met Xi Jinping. Where do you think the US-China relationship is broadly now compared to this time last year? Steve, do you want to? Yeah,

Stephen Biegun ([27:28](#)):

I would say right now it's a bit dormant. Chinese are being very careful at this moment considering that the great experiment of democracy is playing out in the republic that they're trying not. I think they have the maturity to know that if they place a bet, they might get it wrong and the consequences will be severe. And so the Chinese are sitting back and watching guarding their vital interests. But I think there is reason for a bit of concern about the China debate here in the United States. Eric asked the right question is how do we separate out the urgent from the not so important? And right now we're in a debate on China policy that's really pushing to a high denominator across the board and I think there's risks inside that as well. The Europeans have a bumper sticker regarding their China policy, cooperate where possible compete, where necessary oppose where required.

([28:33](#)):

And I think that's a good slogan for Europe. It's not going to work for us and my view is a good policy for us is to deter, to compete and to engage and all three of them have to be part of our policy. We have to be engaged with the Chinese. There are attendant risks in the notion of decoupling because decoupling

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removes interdependence. Interdependence changes the cost benefit calculations of countries that are seeking to act with aggression. There are healthy impulses that come from the interdependence and I believe there's policymakers on both sides on China's side and the US side who believe that completely decoupling from the economy will give us more freedom of maneuver. But I think they're underestimating the degree to which that decoupling also may create scenarios that we don't want to see.

Demetri Sevastopulo ([29:25](#)):

Any, what about in terms of geopolitics and some of the places in Asia where we've hotspots right now? Do you think we're in a better place than we were a year ago or not?

Anja Manuel ([29:33](#)):

Yeah, that's a great question and we're going to have Dr. Ang Singapore's defense minister up here in a minute to tell us all about that. Just to use Steve's framework, which I think is a good one. I think the Biden administration has done a pretty good job on all three of the facets you chose. I think no one is under any illusions that you're going to have a positive upward swing in the relationship with China. What the Woodside summit in November in California did was put a floor under relations and it did three really important things. We now have military to military dialogues. Those were dead in the water. That is extraordinarily dangerous when you have Chinese Coast Guard and shipping vessels around the Philippines in outlying islands of Taiwan and South and East China Sea. It's really complicated. You want our militaries to talk to each other.

([30:23](#)):

And by the way, even during the height of the Cold War, the US and the Soviet Union always had those talks. So that may sound really esoteric, but it's really, really important that we have them. We also start an AI dialogue. We also started a fentanyl dialogue. I think those aren't progressing as well. We've got a lot of folks coming from the White House, they can tell you more about that later in this conference. But overall we have a steady state. The most important thing I think that this administration has done is really work to shore up our alliances in Asia. If you look at bringing Japan and South Korea together in ways that wouldn't have been possible maybe five or six years ago, how close we are to the Philippine, how much work is happening in south and southeast Asia? I think those are all positive steps.

Stephen Biegun ([31:10](#)):

Can I come back to the engagement part though? I think there's more to it. It is commerce. We should be engaged commercially with the Chinese. It's the largest market in the world for many products and it's an important part of the global supply chain. Doing business with China should not be treated as bad and I think it delivers a lot of benefits to the United States of America. But engagement in track two dialogues, Dmitri mentioned at some point in 2023, a switch went on in Beijing and there are dozens of Chinese experts, former military officials, former diplomats who are engaging with their counterparts as former officials, academics, experts in the United States. That's happening right now and that's a very

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good thing. It's a way to deliver signals and messages between the two societies. That wouldn't happen if we disengage and those signals even at an unofficial level are very important to shaping the decisions of policymakers. But also we should be more engaged in a people to people sense, particularly to build our own capacity to understand China. Today there are 300,000 plus Chinese students studying at universities across the United States of America. 15,000 Americans are studying in China today. The offset is incredible and it should be alarming. We need Americans, we need young Americans who understand China, who have relationships with Chinese people in order to deliver the outcomes that we want.

Demetri Sevastopulo ([32:34](#)):

Is there a danger that with all of the anti-China rhetoric in Washington, whether you buy into it or not, that young Americans look at their career in the future and they think going to China to study Chinese is not a smart move.

Stephen Biegun ([32:51](#)):

American students are not going to study in China because they have the misimpression that they will not get security clearances to work in the United States government.

Eric Schmidt ([33:00](#)):

I have three who studied in China working directly for me

Demetri Sevastopulo ([33:03](#)):

Because

Stephen Biegun ([33:03](#)):

They're awesome because it's a misimpression, but that is the vibe that they're picking up. And Ambassador Nick Burns where he here would tell you about this because he speaks strongly about the urgency that we have to get more of our students there.

Demetri Sevastopulo ([33:20](#)):

So the US government should be doing more to explain to people that it won't impact security clearances in the future.

Stephen Biegun ([33:25](#)):

I don't know in the political zeitgeist to the moment Dmitri, I don't know if it's possible because that's not where the debate is here.

Demetri Sevastopulo ([33:32](#)):

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So I'm going to ask a leading question. I would think last year we were talking a hell of a lot about Taiwan. I was recently at the Shangrila Dialogue Defense Forum in Singapore where the Chinese defense minister wanted to talk only about Taiwan and every one in the audience wanted to talk only about the Philippines and the second Thomas shoal where the Chinese are being very aggressive in trying to stop the Philippines resupplying some marines who are stationed on a World War II era ship that's marooned on this tiny reef. It sounds like Mickey Mouse, but it's actually could be the first time the US Philippines Mutual Defense Treaty or any bilateral mutual defense treaty is triggered. So my question is how worried should we about the second Thomas Shoal, is it getting enough attention? And Anya, I'm going to put you on the spot here. Should the US be escorting Philippine supply vessels to give them more protection?

Anja Manuel ([34:24](#)):

I think it's getting an appropriate amount of attention. In fact, it's pretty dangerous. You've seen CQ Brown who's going to be here, he's been trying to tamp down the temperature there. You see the Filipinos tamping down the temperature because I think this is a conflict that no one wants to precipitate. It just doesn't end well because even though we have a mutual defense treaty with the Philippines, when you read the language, it's a little bit complicated. Do marooned wrecked ships on the second Thomas sho count, do they not? So I think it's in everyone's interest to calm this situation down and I think we're gradually doing that.

Demetri Sevastopulo ([35:01](#)):

So speaking of calming things down and then we'll go to questions. Who would like to volunteer a view on how you think a second Trump presidency versus a second Biden term would be on China policy? Not me,

Stephen Biegun ([35:16](#)):

Eric.

Eric Schmidt ([35:19](#)):

So all I'll say is that Trump has announced in his campaign rhetoric that there will be a 40% tariff on Chinese

Stephen Biegun ([35:27](#)):

Goods, 60%

Eric Schmidt ([35:29](#)):

It's gone up and a global tariff of 10%. Is that right? 2020. It's gone up too. It's gone up in the last few weeks. This would ultimately result in higher costs for those of you who shop at Walmart and those of you who shop at everywhere else.

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Anja Manuel ([35:49](#)):

I can maybe add a point because I'm out of both of those administrations. If there's a second Biden administration, I think you have a lot of continuity. They've talked about managed competition, they're handling it the way they're handling it, and I think you're going to see steady as she goes. The Trump administration, if there is one, is nothing if not unpredictable. So you've seen completely opposite things coming. Some people who used to work for Donald Trump like Pottinger and others are very reaganite. There's a foreign affairs article that was written recently saying, we must win this war. We can't just manage competition. It's sort of Gorbachev tear down this wall and then you have Trump saying things like 60% tariffs. That's probably not good for his base. You have Trump on the other hand saying, well Taiwan, they stole business and the semiconductor business from America. Why should we protect them? So if I were, the Chinese would leave me to believe that I wouldn't be as strong on the protection of Taiwan or because he's so unpredictable that he might do something even more rash. So I don't know if that's a positive or negative, but boy, it's going to be a wild ride.

Stephen Biegun ([37:03](#)):

This is the number one question you get asked when you visit China by Chinese counterparts. And I always throw back them, well, who do you want to win? And it would surprise you how often the answer is President Trump because there is a certain fascination about him in China and a sense that unpredictability can also deliver outcomes that the Chinese want. President Trump was not afraid to engage with the Chinese and he did. So they obviously worked very hard to shape his policies, but I think you could expect that. Again, my concern Dmitri, is actually beyond the borders of China, is that any effective policy we have is going to require standing in the foundation of partners, friends and allies around the world. And the 20% across the board tariff for all trading partners in the United States of America is going to make it very difficult for us to turn around and enlist those same countries in a set of sensible policies on a coordinated basis that address our national security concerns. So my biggest concern is actually outside the borders of China.

Demetri Sevastopulo ([38:04](#)):

Okay, let's take a couple of questions from the floor. Let's see, gentlemen here in the middle. Thank you. Just say your name and please keep the questions short because we only have six or seven minutes.

Q1 ([38:25](#)):

Thank you, Sean. Sebastian. My question is about a fast commodifying technology. Electric vehicles, pardon me, while Tesla gets all the headlines here, BYD in China makes twice as many cars as Tesla does, and those cars are generating a terabyte a day of data that is micro mapping that feels like a real threat to have China gathering that information about our practices here. I'd like to comment on how we think about that on a go forward basis.

Demetri Sevastopulo ([38:51](#)):

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So Alan, the Biden administration launched an investigation into connected vehicles. Do you want to talk about that? Yep.

Alan F. Estevez ([38:57](#)):

So we did put out in Washington would be called an advanced notice of rulemaking.

([39:05](#)):

We will come out with a notice of that rule in about a month sometime in August. And what we're looking at is the point you're making a car is a very scary thing. Your car knows a lot about you. Your car probably gets a software update, whether it's an electric vehicle or an internal combustion engine vehicle. A modern car has lots of software in it. It's taken lots of pictures, it has a drive system. It's connected to your phone, it knows who you call it knows where you go, it knows a lot about you and it's able to, because it's taken a software update in it also could of course send data out. That software update in can also say, yeah, on this day that car doesn't start. So we're looking at a few components and some software, not the whole car, but it would be some of the key driver components of the vehicle that manage the software and manage the data around that car that would have to be made in an allied country.

Stephen Biegun ([40:07](#)):

If you want to scare yourself, read the fine print on the mandatory disclosures in your automobile on the types of data that are collected on you. If you don't want to read your user manual, which nobody does, just google it, you'll see it there and it's an extraordinary amount of personal data that is traveling around with you in that vehicle.

Alan F. Estevez ([40:28](#)):

Or just ask your car. It'll probably tell you

Demetri Sevastopulo ([40:37](#)):

At the very back at the left, my left,

Q2 ([40:43](#)):

Hello, it's Guy Taylor from Threat Status. I have two quick questions.

Stephen Biegun ([40:48](#)):

Demetri Sevastopulo

All, can we keep it to one just to be fair to other people? Yes, thank you.

Q2 ([40:52](#)):

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Sorry. I'm sorry. What do I need to do? Can

Demetri Sevastopulo ([40:55](#)):

You keep it to one question, not two? Thank you.

Q2 ([40:58](#)):

It's going to be hard. I guess I'll go with Alan then. I had one for Steve, but my question for Alan is do you think that BIS could be more effective if it were recreated into a US intelligence agency? Essentially

Alan F. Estevez ([41:15](#)):

Despite rumors, BIS has a strong intel component with lots of people with clearances, with a direct linkage to the IC that I utilize every day, whether commerce itself should be part of the ic. There's lots of puts and takes on that, but we have a very strong link to the IC and to law enforcement in general, to tell you the truth.

Demetri Sevastopulo ([41:41](#)):

Do you have enough money to do what you need to do?

Alan F. Estevez ([41:44](#)):

I could probably use a 75 million a year above my flat budget since 2010 and another a hundred million to upgrade my IT system that you can't Google and say, what license did I put out in whatever year to whatever company?

Demetri Sevastopulo ([42:07](#)):

Let's see, lady in just in front of me here.

Q3 ([42:14](#)):

Thank you so much. Nicole Nik from Los Angeles. I wonder if you can comment on the Belt and Road Initiative and if there have been any surprises.

Anja Manuel ([42:24](#)):

Yeah, I'm happy to take this one and Steve may want to chime in too. So the Belt and Road initiative exploded onto the sea. It was building railroads, asphalt ports, sometimes dual use ports, but most importantly I think was the digital silk road where the Chinese government has given surveillance technology to a lot of its authoritarian friends around the world. That is the part of it that scares me the most. A few years ago when you had headline after headline about the Belt and Road, I would travel to Africa and Latin America and think, oh, most of the people I see here are already frustrated that the,

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they're bringing in only Chinese workers, that there's so much corruption, that the labor standards are low, that the environmental standards are low. So a part of that had within it the seeds of its own destruction. And by the way, as the China's economy is slowing, Chinese people are saying, well, why are we building ports over there? We need our money here. But the digital silk road is really powerful and this gets back to what Eric said in the beginning about AI and how good the Chinese are at ai, visual recognition, artificial intelligence they're expert at.

Stephen Biegun ([43:37](#)):

So I have a longer term view of belt and road. Obviously any place where it's building military capable infrastructure in geographically or geopolitically sensitive areas is worrisome dust. And NAA mentioned some of the technologies, but also there's a deficit in global infrastructure development around the world. And if the Chinese want to help developing countries improve their infrastructure, we should be careful in how quickly we judge against that. Also, the debt trap diplomacy and the loans that oftentimes finance this and put emerging markets of developing countries into impossible debt situations is very familiar to me as a former US foreign policymaker. Through the course of the 1960s and 1970s and into the 1980s, we loaned hundreds of billions of dollars to impoverished countries around the world that had no possibility of ever repaying it. And finally, in the year 2000 in what was called the Jubilee under the leadership outside of government by Bono United States government just straight line forgave over a hundred billion dollars in debt because the countries that had this debt couldn't even afford to service the interest on the debt, much less ever have a chance to pay them off.

([44:53](#)):

And so they were locked into a cycle of poverty in constant debt. The Chinese are heading down this road. And by the way, a lot of those countries really stopped liking us when we were calling our loans with them. So there's a real foreign policy implications to having countries dependent if you think you're going to go in and repossess a port or seize some sovereign asset inside that country and still be able to maintain a relationship. So there will be costs to doing this wrong. And we learned a lot of tough lessons ourselves in the late stages of the Cold War.

Demetri Sevastopulo ([45:27](#)):

Well, I think given that you've just praised one of my Irish compatriots, that's a perfect place to end. So I would like to thank the panelists and please give them a huge round of applause. Thank you.