

The Economic Club of New York

509th Meeting
112th Year

General David H. Petraeus (Retired)
Former Director, Central Intelligence Agency

June 19, 2019
New York City

Moderator: Marie-Josée Kravis
Chairman, The Economic Club of New York

Introduction

Chairman Marie-Josée Kravis

I'm happy to welcome you to the 509th meeting of the Economic Club of New York. But before we continue, I'd like to say a few words about a wonderful member of the Board of Trustees of the Economic Club and a member of the club who passed away last week, Martin Feldstein.

Martin, as you know – many of you in this room knew him – was a wonderful scholar, an educator, a great public servant, and he was a devoted member of the Economic Club. He served as a trustee, as a co-chair of the Membership and Centennial Committee. And to many of us in this room who had the opportunity of working with him, he was always a very wise and generous counsel and was really a wonderful human being. So I'd like us to observe maybe a moment of silence in Martin's honor. (Moment of Silence)

So, as you know, the Economic Club of New York is probably the nation's leading venue for discussions of economic, political, geopolitical, and social issues. And I want to especially thank the members of the Centennial Society – 228 members – who make the program possible and who also ensure our financial viability. Many of you are with us at the front tables today. So I want to thank you very much for your steadfast support of the Club. And I'm also happy to welcome some of our 2019 Economic Club of New York Fellows, the future generation of business leaders that we're very happy to have with us today.

But I'm especially happy to have our guest, General David Petraeus, with us today, taking time from a very busy and hectic schedule. So, thank you, David, for being with us. David Petraeus is a graduate of the, he, in fact, graduated with distinction, at the U.S. Military Academy in West Point and then went on to pursue an M.P.A. and Ph.D. in economics and international relations at Princeton University. He served 37 years in the U.S. military and then became Director of the CIA. David, many of you will remember, as the Commander of the troops in Iraq during the surge of 2007, 2008. In fact, much of the surge was conceived by General David Petraeus, who then led the troops in implementing this idea.

He served as the head of U.S. Cent Comm, and led coalition troops in Afghanistan in 2010-2011. So he's had very vast experience in the U.S. military and as a result received a number of awards and medals from NATO, from the U.S. State Department, from the U.S. government, from the United Nations, and he was honored by 13 foreign countries.

He has agreed today to participate in a conversation so we will try to elicit some of his views on a number of areas of the world. The meeting is on the record and there is press at the back of the room. And we will incorporate, I will incorporate in, some of the questions that I pursue with David, a summary of questions that were submitted by many of you through our website so that I will try to convey as many of your ideas and preoccupations as possible. And on that, David, would you join me and we can start our discussion. (Applause)

A Conversation with General David H. Petraeus

GENERAL DAVID H. PETRAEUS: Well, thanks very much for the kind introduction. Thanks for the warm welcome. It's really an honor to be with this club. I've been in the audience a few times and never dreamed that I would be on the stage. So, again, a real privilege to do it. And I just want to note that I've had enormous respect for Marie-Josée for way over a decade. Our first encounter was when, I think I was a Three or a Four-Star, I happened to be home from Iraq, and she noticed that I was doing an event at the Council on Foreign Relations. Very astutely saw there was no dinner and invited me to her place with Henry. She said I could invite anyone I wanted. And I thought this was pretty nifty, I'll try it. And it was sort of like, you know, your parents ask you what do you want for Christmas? And so I'd like to have Henry Kissinger there, Mayor Bloomberg, Fouad Ajami, Richard Holbrook, the list went on, Commissioner Kelly. Every single one of them showed up and I didn't realize at the time – at that time I still didn't know the difference between private equity and public equity – I didn't realize that if you don't come to a Kravis-hosted dinner, there's a leveraged buyout of your firm the next day. (Laughter) But it is great to be with you.

CHAIRMAN MARIE-JOSEE KRAVIS: Well, David, I actually wanted, I didn't mention in the introduction, but I know that, I mean since you've been retired you've done a lot with a number of academic institutions, but David also became, in 2013, joined KKR. He became a partner and he now chairs the KKR Global Institute. So if I have a little bit of a conflict, it's now transparent.

GENERAL DAVID H. PETRAEUS: And I think I have great job security right now because the world is as complex and challenged and difficult as I think has ever been the case perhaps in the post-World War II period. It's not more dangerous. I think back in the days when we had thousands of nuclear-tipped missiles pointed at each other, that it was arguably more dangerous. But certainly I think the complexity of it and, frankly, also the way that geopolitics is intruding more and more and more into investment decisions, where diligence now is not just a financial calculation, it is becoming one that very much involves again a variety of issues having to do with geopolitics, governance, rule of law, environment, social norms, in addition of course to the, again, the financial and the macro components of diligence.

CHAIRMAN MARIE-JOSEE KRAVIS: So maybe we should, I mean it's very timely that we might want to discuss Iran as one of those geopolitical...

GENERAL DAVID H. PETRAEUS: And this is one that, of course, obviously has a very direct influence, of course, on energy markets even with the U.S. energy revolution having reduced quite considerably the clout – if you will – the influence. But still the global economy is still fueled in large measure by oil and gas that comes out of the Persian Gulf, not all of which has to go through the Strait of Hormuz anymore since the UAE has a pipeline and Saudis have one that goes west as well. But still very considerable, and it's probably a third of the world's energy resources. And so you can see a risk premium when there is an attack on the two ships as we saw the other day, which I think is without question the work of the Iranian Revolutionary Guards

Corps navy. Keep in mind that you have, there's a regular army, navy, air force and then there's the Revolutionary Guards Corps army, navy, and air force and also Quds Force, which is a cross between special operations and the CIA. And just to start, I think one of the aspects of Iran that we sometimes overlook, which was in high relief last week is the fact that there are actually two states. There's the visible state. There's an elected president. Of course, he's elected off a list that's approved, and not everyone is approved. There's an elected parliament. There are ministers. It's all quite normal. And that was the component that, of course, Prime Minister Abe was meeting with trying to foster some kind of communication between the U.S. and Iran, something that others are also seeking to do. But then there's the deep state and that is the Revolutionary Guards Corps, again the Army, Navy, Air Force. It is the Quds Force, as I mentioned. And it's this, the shia militia, basically more than a million pipe swingers that can clear streets if they have to should there be another uprising similar to that of the Green Revolution a decade or so ago. That was, at the same time that Prime Minister Abe was meeting with the leader, the elected leader of the country – of course, the supreme leader is up here at the top – you have the deep state conducting attacks on two ships, one of which is actually a Japanese flag, which again is quite a contrast. And, of course, that came after a previous attack on two other ships all out in the Gulf of Oman outside the strait. There have been rockets fired at several different locations that have U.S. forces inside Iraq. There have been the drone and missile attacks by the proxies, the Iranian-supported Huthis in Yemen, on Saudi Arabia. And it seems as if what Iran is trying to do is to stable below a certain threshold, certainly anything that would involve a serious injury or death of an American and to be somewhat ambiguous so the

attribution is not crystal clear, so that people that debate, they can obfuscate and say, oh, of course, it wasn't, you know, it was really the Americans that are carrying this out to incite some kind of conflict, which is certainly not the case. It's just not conceivable. But the bigger issue here, I think, as we were discussing beforehand, and one that I think the U.S. does need to clarify a bit more, and that is, remember that question I asked on the road to Bagdad at the very beginning as I realized that the assumptions we had been given were gradually being disproved, and that was, tell me how this ends and what are the U.S. objectives? Are the twelve, essentially demands that Secretary Pompeo issued in his speech to the Heritage Foundation last year, are these non-negotiable or are they actually the opening position for dialogue? I think it is the latter, by the way. I'm quite confident it is. But that's something that needs to be communicated, needless to say.

CHAIRMAN MARIE-JOSEE KRAVIS: Exactly. I mean if you look at those twelve points...

GENERAL DAVID H. PETRAEUS: Oh, this is unconditional surrender.

CHAIRMAN MARIE-JOSEE KRAVIS: It's unconditional surrender, exactly.

GENERAL DAVID H. PETRAEUS: I mean no regime could ever actually carry these out because it would no longer be around.

CHAIRMAN MARIE-JOSEE KRAVIS: So which, where do you think that there's more leeway for negotiation or how does that come about?

GENERAL DAVID H. PETRAEUS: Well, I used to say that we have to see until next year sometime, Iran sees how many more notches it can put in its belt and they keep tightening this. Because, of course, the effect on the economy of Iran has been devastating. Inflation is skyrocketing. GDP is plummeting, quality of life for the people, all the rest of this is very affected by the sanctions that we've put on. And these are actually even tougher, I think, in the implementation in the end than what we put on during the Obama administration period during which the Iran nuclear deal was being negotiated. In fact, I was the Director of the CIA at that time. And we used to get asked, by the way, what will the price of Brent Crude be after the next round of sanctions? I'm very happy to report that the CIA got it right and I remind the Secretary of the Treasury at that time every time I see him here in New York that we got it more right than they and Commerce and Energy. We had inside information of course. (Laughter) We did share it. The others just didn't believe it as much as we did. But what the Iranians are doing now is putting pressure on us. Again, they have to be very careful that they don't exceed the threshold because the question then becomes, okay, how do we respond? And then how does it, what is the cycle of violence from there? You'll remember we've been there before. Back in the late 1980s, we had the tanker wars. There were thousands of attacks on ships. We ultimately had to re-flag ships with the U.S. flag so we could actually escort them. And ultimately, in a short period of time, when violence escalated we essentially destroyed half of the Iranian Navy when they just

kept coming at us and ultimately took out a great deal of their force. They're a very different navy now, though. There's a lot of fast boats. There are submarines. There are some missiles that can threaten our shipping. And the Gulf is a smaller place than you might think if you're an aircraft carrier and a very big target. And I've been on those out in the Gulf when I was a Central Command commander. So, again, how do we get some discussion going? Does the U.S. have to perhaps give some indication of a concession of some type when it comes to the imposition of these sanctions, which again have had such a devastating effect on the Iranian people and on the Iranian economy.

CHAIRMAN MARIE-JOSEE KRAVIS: But we seem to be moving the other way towards more tightening of sanctions...

GENERAL DAVID H. PETRAEUS: Well, this is, you know, this is a very, very tough set of sanctions that is being tightened. I mean we want to drive down the export of oil below what it even is already. And I think that we were still allowing them to export about a million barrels of oil or so, maybe a bit more than that, during the Obama sanctions. I remember we took a million off the market and went to the Saudis and asked them to replace that. Of course, the energy landscape again now very, very different. The U.S. at that time was still the number three or four producer of crude oil. It's now far and away number one – number one in natural gas, number one in oil liquids. So, the swing producers in the world now really, I think, you would have to say are the shale producers – the Balkan and the Permian and so forth, rather than necessarily

OPEC the way it used to be. So how do you get negotiations going? And again, we are going to have to come to grips with what really is the policy objective. We need to be very clear-minded about that right now noting that again the twelve demands, they just can't be achievable. No regime could survive accepting those in Iran. And then get some talks going through the Omanis, through the Swiss, through the Japanese, through other big – Iraqis have been trying to facilitate this as well. And keep in mind, by the way, of course Iraq is very concerned that it is on their soil that there will be some kind of proxy war between the U.S. and Iranian-supported shia militia because they're the ones who have been doing these shots.

CHAIRMAN MARIE-JOSEE KRAVIS: So my comment on the proxies, there's, Iraq has the potential proxy battlefield, but there's also Hezbollah and Hamas.

GENERAL DAVID H. PETRAEUS: Well, there's a number of these different proxies. Keep in mind that what Iran wants to do in the region, of course they want to solidify the Shia crescent so the Shia areas that stretch from Tehran through Iraq through Syria and then down into Southern Lebanon and Hezbollah. And they'd like to have a ground line of communications because they've generally had to do most of this by air. They also want to Lebanon-ize Iraq and Syria in a sense. And what I mean by that is that if you look at what they've done in Lebanon, they've built, funded a very powerful militia, Hezbollah. And then the political component of Hezbollah has enough votes in the parliament now, together with the coalition, that they actually have a blocking veto in the parliament. That is an enormous amount of power. They'd love to be able to

do that in Iraq. And indeed, some of these shia militia that they support, their leaders are actually in the Iraqi parliament. By the way, it's interesting that several of them were in detention facilities in my day for very good reasons, literally cold-blooded murder of our soldiers. And then during the transition, they ultimately made their way out and they're now actually sitting in the Iraqi parliament, even though the law prohibits that. So this is, you know, welcome to the land of the two rivers. But they'd love to be able to create that kind of power there as well. The vast majority of Iraqis and Iraqi leaders will say we have to have a relationship with Iran – it is always going to be our neighbor to the east – but we don't want to be the 51st state of Iran. They do not want Iran having that kind of power. But it's a very tricky situation for them because these shia militia were given a reason to be back on the streets, sadly, in uniform with weapons by the Islamic state. We have to recognize that they helped Iraq hold the Islamic state and then push it back ultimately with our air power and drones and intelligence. They are now supposed to be integrated into a chain of command of the military, but the truth is that they're operating somewhat independently as well. We couldn't ask for a better president, prime minister, and speaker, this is Kurd, Shia, Arab, Sunni Arab, than you have in Iraq right now. They're very, very intelligent, thoughtful, skillful, deft and everything else. And they are trying to manage this issue, again with a neighbor that's several times their size and on which they depend for a certain amount of their refined oil products, electricity, trade and all the rest.

CHAIRMAN MARIE-JOSEE KRAVIS: And are we giving them enough support?

GENERAL DAVID H. PETRAEUS: We, you know if you ask a military guy, are you ever giving enough, of course the answer will never be that we are. We actually have to be careful with Iraq because I think again we have to provide the support deftly. We have to be very careful not to imply that Iraq is where we have the observation posts for Iran. That is not helpful to the Iraqi leaders. They very much want us there. They could not have defeated the Islamic state, I don't think, without our assistance. And, by the way, again kudos to the Iraqi security forces which did include certainly some of these shia militia because they were the ones doing the fighting on the front lines. We were providing air power, intelligence, surveillance, recognizance, intelligence fusion, advice, assistance. But at the end of the day they're the ones that were doing the front-line fighting, and the same in that area of Syria where we also defeated ISIS. I might just point out, by the way, that, you know, one of the lessons, I think, that we should have learned over the last 20 years is that you have to be really careful about declaring victory or mission accomplished or anything like that. And I think each of the, the current administration and the previous two all have got to be very careful. The previous two certainly did that at different points and probably came to regret it later on. We have defeated the Islamic State as an army. We have taken away the ground caliphate. That's a hugely significant accomplishment that together, Iraq and Syria, that caliphate was almost the size of Great Britain. But we have not defeated the Islamic State as insurgent groups are still tens of thousands of individuals that fragmented and are now regrouping, just as the way the Taliban regrouped.

CHAIRMAN MARIE-JOSEE KRAVIS: And also as an ideology.

GENERAL DAVID H. PETRAEUS: We haven't defeated the ideology and we haven't eliminated the cyber-caliphate even though we literally eliminated their IT farm – if you will – that they had at the headquarters of the Islamic State in Syria. So this is going to go on. Now, it's much better than when they had all that money and all that territory and oil production and a variety of other elements to help them. And it also helped them then project activities, attacks into Europe. But, again, this is going to continue. This is a generational struggle. We have to acknowledge that and we have to realize that wherever there are ungoverned or inadequately governed spaces in the Muslim world, that extremists will exploit them. You have to do something about it because what happens there, there's no Las Vegas rules, what happens there doesn't stay there. It tends to spew violence, extremism, and instability and a tsunami of refugees all the way into Western Europe, in the case of Syria, which of course caused the biggest populous problems that they've had since the end of the Cold War.

CHAIRMAN MARIE-JOSEE KRAVIS: Let's go back, let's maybe delve into that idea because when you, of course, led the surge, but you also led the underpinnings of thinking the framework, the big ideas, one of them was, in fact, engaging more with the local populations, protecting them, eradicating violence. And so, if you looked at what's ahead, are these, are we able to help these governments achieve those things?

GENERAL DAVID H. PETRAEUS: We certainly can. And I personally think that we certainly have to. Again, you have to do it in a sustainable manner. And I think that we have figured out

how to do that. We have capabilities now that we didn't have then when it comes to this constellation of drones that has proven to be so important in this particular fight. But again, one of the other lessons that we have learned is that you can't counter terrorists like the Islamic State and Al-Qaeda with just counter-terrorist force operations. You can disrupt them, but you have to keep doing that almost forever. If you truly want to defeat them, ultimately you have to have a comprehensive approach and this what we did in Iraq during the surge. It was a comprehensive, civil military campaign. And it wasn't just night raids and even daytime clearing operations and hold and training the Iraqi security force, it was reconciliation, it was local governance, it was rebuilding the damaged areas, restoring basic services, rule of law, all of this. The positive development this time is that the Iraqis have done a lot of that themselves and so we certainly need to provide continued assistance. But one of the great features of Iraq is that they're generating \$100 billion, roughly give or take depending on the price of Brent Crude, in oil revenue every year. By the way, that is something often overlooked, that Iraq which has all of these centrifugal ethnic, sectarian, political, tribal, and other forces pulling it apart, has this extraordinary centripetal force keeping it together. And that is the central government's distribution of the oil revenue and all communities are really, they rely on that enormously. That's why you can't break the country up, by the way. The Sunnis would have nothing. The Kurds can't afford actually independence. So it's very, very important.

CHAIRMAN MARIE-JOSEE KRAVIS: They don't want to.

GENERAL DAVID H. PETRAEUS: Well, they had a referendum and showed that the sentiment was for that. And I think with hindsight that was something that was a bit premature.

CHAIRMAN MARIE-JOSEE KRAVIS: Now taking, moving to Afghanistan, because they don't have...

GENERAL DAVID H. PETRAEUS: No, and that's one of the big differences. And I remember when I was a Three-Star in Iraq, on the way home, Secretary Rumsfeld had a curious reward system, you know, if you did a good job, you'd do another good job I guess, or have another opportunity. You know I came home as a Two-Star and within six weeks I'm back over there doing an assessment, came home, gave him some recommendations. He said, these are great, get back over there and implement them. So on the way home from the Three-Star tour, he had me come through Afghanistan, which I pointed out to him was not the direct line between Iraq and my home. So we took a team over there and we came back and we had, the first slide in the briefing was titled Afghanistan Does Not Equal Iraq. And it laid out all these different components, these elements. And one of those very much is that it has virtually no real source of revenue except for illegal revenue. And there we validated another truism. That is that it's really hard to have rule of law in a country if its major export crop is illegal – the poppy, the opium. But it's also just again a country with much less infrastructure, much less educated. The enemy, the biggest difference really is that the enemy headquarters are beyond our reach, by and large. The Taliban are called the Quetta Shura because that's where their headquarters is, in the

Balochistan province of Pakistan. And then you have the federally-administered tribal areas which is where Al-Qaeda, the Islamic State, Movement of Uzbekistan. Now Al-Qaeda senior leadership, the Haqqani network, the Pakistani Taliban and the others are all generally in there. It's incredibly frustrating to be the commander of a counter-insurgency operation where you can't reach all the way to the headquarters of these forces. So that's the challenge for Afghanistan. I personally think that it's very, very important to remember that we went to Afghanistan for a reason and we have stayed for a reason. And that is because that's where the 911 attacks were planned when Al-Qaeda had a sanctuary in Eastern Afghanistan, when the Taliban ran the bulk of the country. And we have stayed there after eliminating it in the beginning. We have stayed there to keep it from coming back, something they keep trying to do. And now the Islamic State has a chapter over there – if you will – and they're trying to establish it. There's something about Eastern Afghanistan that was always lost on me. I went out there several times to try to get some feel for what is the attraction. It's a pretty desolate, mountainous, maybe the tribal composition there. But I think you just have to stay in Afghanistan. And I think the key is to get this to a point, which I believe it is, where it is sustainable in terms of blood and treasure. I would love to see, you know Ambassador Khalilzad well. I know and have enormous respect for Zal. He was the ambassador when I was a Three and then early Four-Star period in Iraq, UN Ambassador of course in Afghanistan in the beginning. He knows the people. He's from Afghanistan. He speaks the language. But I don't see how you get an agreement when you're in a situation where the movement is gradually, sort of against you, or at least the situation is somewhat fraught. Compared with when, you know, I had 150,000 troops on the

ground and Richard Holbrook was, you know, the bulldozer negotiating this. And at a time like that, we couldn't get the Taliban really to come seriously to the table. And I'm not sure how we would attract them now other than saying that we're going to leave. But if we leave, it's almost certain that we will once again have to come back as we have learned in some other cases where we have pulled out and then the situation got bad again and we realized, however reluctantly, that you have to go back in. The key is, I think, that we have figured out how to do this now, again because of the additional capabilities we have in a way that is not costing very substantial numbers of lives, and again the cost in terms of treasure is not trivial – \$25-\$30 billion a year is not again small. It's almost the defense budget of many countries. But in a budget of \$740 billion on defense, that is affordable compared with what you would have to do if you don't. But, you know, this is where it's probably wise to recall that we are doing all of this in a situation that is quite different from when I was privileged to command, say the surge in Iraq, and it is because of the rise of China. And I've argued that we should, this is the most important relationship in the world. It's one that I'm sure everybody in here wants to see mutually beneficial, but everyone in here also recognizes that there are some very serious concerns and that they have grown in recent years. And I think that we should have a prism through which literally you have to push every foreign policy initiative and ask what will the effect of this be on the U.S.-China relationship. It is that important. I think it's so much greater in importance than all of the others almost put together. And so we have to carry out this continuing counter-terrorism effort, but doing it in a world where we do have to focus vastly more on China and to a degree more on Russia again and then others.

CHAIRMAN MARIE-JOSEE KRAVIS: But speaking of China, it seems that most of our interactions with China, at least recently or at least openly, have focused more on the economic relationship, on tariffs, and trade and so on. But do you have any sense that there is a strategic framework that's emerging or developing that will define that relationship?

GENERAL DAVID H. PETRAEUS: There are certainly many elements and I've argued in a monograph of the Belfer Center at Harvard that coherence and comprehensiveness is a foreign policy imperative and you should have a very coherent – in other words, this is the main effort, all the others are supporting efforts. It's all focused here. Every action you take again should ask what will the effect be on the coherence of our policy and then the comprehensiveness. So all tools involved, not just security or not just trade, not just economic, but diplomatic assistance and all the rest of this should be. And we do actually have a lot of the elements. We listed a lot of those in that particular monograph. But at the end of the day you would then sit back and ask, in particular, don't we want to do this with arms linked with as many of our NATO allies, our G7 partners, our Pacific partners? And do you not do everything you can to stay in the Trans-Pacific Partnership rather than leaving? And, of course, you know, well done to Japan for carrying on and doing it without us. But again, if you really are going to – in a sense – confront a country, and this is not to say that we can contain it or whatever, but just to make it understand that certain practices have been unfair and that they have accumulated a bit over the years, then you want every ally you possibly can muster. And I think you would ask whether or not some of our

interaction with some of our allies has not been counter to that. And again, there are a variety of actions, I think, as well. But I do think that there have been a number of difference initiatives that would be, that are very substantial components of this, but that in the main, it hasn't been completely brought together.

CHAIRMAN MARIE-JOSEE KRAVIS: But we are at a moment, we're at an interesting moment. For example, the Europeans, in their recent strategy, have come out and identifying China as a rival for the first time.

GENERAL DAVID H. PETRAEUS: They did. The EU did.

CHAIRMAN MARIE-JOSEE KRAVIS: So, don't you think that the timing is propitious for...

GENERAL DAVID H. PETRAEUS: It very much is, but again you've got to link arms with those allies and you've got to ask then...look, I'm as frustrated as anyone else having been a NATO officer all the way from a Second Lieutenant to a Four-Star General with three general officer assignments as a NATO guy, not just a U.S. guy and the frustration over the inadequate defense spending by some of our partners, particularly those that are running fiscal surpluses and can barely get to 1.5%, much less 2%.

CHAIRMAN MARIE-JOSEE KRAVIS: We won't name...

GENERAL DAVID H. PETRAEUS: Yes...And so, again, that is very, very frustrating. We should make that frustration known. How far do you take it, though, if you also want to then have arms linked for example? And we see chinks in that as well, because in the same month where they published that particular study which was quite significant, you also saw individual countries signing up for the Belt and Road Initiative and others that are very hesitant on some other issues, maybe Huawei, the 5G, all the rest of this, really because they just can't afford to antagonize the biggest trading partner. By the way, keep in mind that this is a truly unique situation where our biggest strategic competitor is also one of our biggest trading partners. China, Canada, and Mexico, not in that order, all about the same roughly, and that's how significant. That was not the case, of course, during the Cold War with the Soviet Union. So, again, a very, very tricky and very challenging situation. And I do believe that we should have been firmer earlier, not provocative but firm, and that's the key.

CHAIRMAN MARIE-JOSEE KRAVIS: In what way?

GENERAL DAVID H. PETRAEUS? Well, look, first of all, if you have a red line, even if it's in another part of the world that turns out not to be a red line, there are repercussions, ramifications of credibility that extend to the Far East, that extend to Russia perhaps and so forth. But beyond that, again if we say don't build more islands and there's a continued building of islands, if you say don't militarize the islands and, of course, they promise not to do that, but then it continues,

there should have been actions that we should have taken. We should have helped Vietnam build some islands. By the way, they did some on their own. We should have helped all the other countries build some islands. You know you don't have to do this again provocatively. You don't have to click fingers and chests. You just have to take actions that are a response to what it is that is beyond the pale, the same with theft of intellectual property and some of the other issues.

CHAIRMAN MARIE-JOSEE KRAVIS: So, should we be reacting more vigorously to the situation in Hong Kong now?

GENERAL DAVID H. PETRAEUS: I think we have been somewhat tepid in our reaction to that. Again, I think we have to be careful. You have to be judicious. And we're at a very sensitive moment where the president apparently now will meet in the G20 Summit in Japan, which I think is positive. And it was very concerning that the agreement that was nearly complete, as you know, that Lighthizer, the trade representative, and others reached with their Chinese counterparts all of a sudden was pulled back and again very concerning. But the ramifications of this for the whole world, you can see just again reverberate whether it is a reduced global GDP growth, which then has an effect on oil prices and all the rest. You just see this again rippling around at a time when we are already seeing some slowdown signs in various countries around the world. But again to be firm but not provocative, I think, is the key. And I think you can translate that into meaningful actions, but we also should be having dialogue. I

think, you know, our mutual great friend, Henry Kissinger, I think has always been right in saying that, you know, I don't care how bad the situation is, you still need to be having a strategic dialogue that should be developed in-depth. And the challenge is if key people are changing at a fairly substantial rate, it is very hard to establish that kind of dialogue and the relationships that would go along with it.

CHAIRMAN MARIE-JOSEE KRAVIS: And you're not concerned that the Hong Kong situation could have contagion effects within China?

GENERAL DAVID H. PETRAEUS: I don't think so. I think the real question is do the people continue to come to the streets? The Chief Executive, Carrie Lam, she has now essentially said that she will not re-introduce this without an assurance that everyone is supportive of it, which means she can't quite say it's dead, we're going to put a stake through its heart. I think that would be too much. But she has apologized. She has admitted that she misjudged the moment, etc. And that's quite substantial. The question is what happens if the crowds stay out there and perhaps want her to step down, when does the mainland start to step in here? Is there a Tiananmen Square moment here? Or do they keep hands off? Because, of course, Hong Kong has this special status, as you know, which could be jeopardized by that. And I don't think that China is at a point yet where they want to lose that status that Hong Kong has that has sustained it so well. I think what they really want to do is gradually integrate Hong Kong into the Delta Strategy that they have and just make it part of the other key cities in that particular part of

China. And so I think a lot does depend on what the people do. You'll recall that they had a failed situation several years ago with the Umbrella and they seemed to have figured out how to build a crowd anonymously and even wearing masks and so forth. So, do they take yes for an answer, the people? Or are they going to insist on something more? Basically one-quarter of the population of the city was on the streets at the height of this demonstration.

CHAIRMAN MARIE-JOSEE KRAVIS: And what about the Uighur situation? Do we intervene or do we show more strength there?

GENERAL DAVID H. PETRAEUS: We can't intervene, I don't think.

CHAIRMAN MARIE-JOSEE KRAVIS: No, but I mean diplomatically...

GENERAL DAVID H. PETRAEUS: Look, I think one of the issues in our own country has been a real question – and in many other countries as well because democracy has been disrupted in many of the major countries of the world. You see it with Brexit in the U.K., the Yellow Jackets in France, Chancellor Merkel in a fragile situation because of taking a million refugees. Italy has a curious right-wing, left-wing government coalition that only agrees on one issue, which is no more refugees. Spain will probably have a minority government if they can get it put together. And, of course, we have real questions in the United States about the role in the world of the United States. Should we continue to lead? Is globalism all it's cracked up to be? Is trade? I

mean presumably 99.9% of the people in the room would all be ardent free traders, but that is not the sentiment throughout our country. And how much should we get involved in these other countries? Who cares about that kind of thing? Should we still promote democracy and the freedoms that again the vast majority of us cherish but some see as overstretch and we should be doing nation building at home and the rest of that? This is a real issue. And, of course, democracy in the U.S. – I actually did something on this recently and the title of the speech was *Disrupted: The State of Democracy in America*. And it's not just this administration. It's not just an individual who prides himself really in being the Disruptor-in-Chief. This has been in the works for some time. And it really is most manifest in the hollowing out of the center in the House of Representatives but also in the Senate. And it's a result of a number of different factors, one of which is gerrymandering which has made Republican districts brighter red and Democratic districts – both parties do it. And that means that the primary is where the real election is because I think it was in the 2016 election, there were less than five or so actually competitive House races. And so you don't have any of the Blue Dog Democrats left. You don't have Rockefeller Republicans left, certainly not in large numbers, which means again that they've grown farther apart and then compromise becomes much more difficult. We've unleashed money in our elections and it's not always attributed, which should be a case. And so I think we actually really have to come to grips with this as well. Do we do away with gerrymandering? Do we do away with sort of first-to-the post? Or do we have actually rank-ordered voting? Should you have open primaries rather than just, again, Republican and Democratic primaries? I think these are huge questions for the United States because when you

have a situation where government is shut down, where you can't pass budgets before the fiscal year begins, and again that has not, that's not a phenomenon associated with this administration. That was very much the case going back at least probably to the Clinton administration. I think the latter years of that was where you started to see this. So, again, we have some pretty profound questions. You know, I believe strongly that we should continue to provide leadership for the rules-based international order, that we should convince others that this is wise. By the way, if you think about it, no other country benefitted more from the rules-based international order than did China because they accomplished in 40 years what no country has ever accomplished since Deng Xiaoping welcomed the world to China some 40-plus years ago. And we should continue to promote these values and so forth, but they are under siege, you know, the illiberal democracies now that you see in Hungary and some other places. And like you, I was in, I think, four different countries in Europe in just the last three weeks and it's quite manifest. It's going to be very interesting to see what happens in Ukraine, by the way, where I was last week, which has a front line that looks like something out of World War I. It's amazing.

CHAIRMAN MARIE-JOSEE KRAVIS: I was going to ask you. You were in the Ukraine and discovered a military situation.

GENERAL DAVID H. PETRAEUS: So it's a frozen conflict in the sense that the front line is frozen, but it's a very hot, there's a lot of shooting going on and the Ukrainian forces are losing three or more soldiers a week. They're completely entrenched, completely underground. But the

truth is that we have to remember that the battle that matters most is not the battle in the Donbass. It's the battle of key evidence about governance. And that's, once again, the people voted 73% for an individual who had never run for office before other than on his comedian show – the party of the people. And he gets 73% of the vote which was entirely because it was again let's get rid of those who have led us before. It's about anti-corruption. It's about deoligarchization and these other issues. But it's a very open question whether those reforms can be implemented and it's going to be fascinating to watch because that's right on the fault line between democracy and kleptocracy.

CHAIRMAN MARIE-JOSEE KRAVIS: Well, that's what, maybe the last few minutes we could have you share some views of leadership. I know that you've spoken a lot, you've written about leadership. You've written about the four main elements of leadership. But really the question of leadership and competence and quality of leadership – whether it be running a business or whether it be running a country. And of course, you've led people. Leading people to battle requires very strong leadership.

GENERAL DAVID H. PETRAEUS: It's not for the weak or faint-hearted as we used to say.

CHAIRMAN MARIE-JOSEE KRAVIS: But the question of, I mean they have to believe in the mission more than they fear you.

GENERAL DAVID H. PETRAEUS: Oh, yes. And, by the way, if you can't persuade folks that it is the right course of action, you might actually go back and look at your ideas. So, yes, I think there are, and by the way, there are a lot of people in this room that have been strategic leaders. And that's really what I'm talking, a subset of leadership, which is the individual who is actually deciding the strategy, the course of action, you know, do we go left or right? And most organizations only have one or maybe two – Henry and George for example at KKR. And there are four tasks that these individuals have to get right. First, to get the big ideas right, which is not trivial. And, by the way, if you don't get that right, everything you do subsequently is building on a shaky, intellectual foundation. You have to communicate the big ideas for the breadth and depth of the organization. You have to oversee the implementation of the big ideas. That's what we normally think of as leadership. You know, it's example, it's energy, it's picking the right people, it's getting rid of the wrong people, it's metrics, it's what do you do with your time, all the rest of that. And then the fourth one is to have a formal process of sitting down and examining how you need to refine the big ideas and do it again and again and again. And I'll give you two quick examples. One would be the surge in Iraq. The other would be Netflix. Because Reed Hastings, I think, is one of the great strategic leaders of the world, up there with Jeff Bezos and Jack Ma and some others. So the big ideas, the surge that mattered most in Iraq was the surge of ideas. It wasn't the surge of forces. We already had 140,000 troops. We got another 25,000-plus. That wouldn't have predicted that you could drive violence down by 85 to 90%. What did that was the change in the strategy. We had been consolidating on big bases, handing off to the Iraqis, "getting out of the faces of the Iraqi people", releasing detainees. And I

said all three of those have to be reversed and then some others as well. We have to live with the people to secure them and security is job one because the human terrain is the decisive terrain in these fights. We have to take back control from the Iraqis whether it's official or not. We're just going to do that. I mean, by the way, these are profound. This meant 77 additional combat outposts, patrol bases where we were 24/7 just in Bagdad alone. And we had to fight for most of these and then very quickly put up security so that suicide car bombs couldn't penetrate these bases. So that was very substantial. Detainees, we stopped releasing them until we actually had a rehabilitation program and got the extremists out of their midst and put them in maximum security. These are not trivial. We had 27,000 detainees. And Stan McChrystal came to me and he said, you know, boss, you're running a terrorist training camp in these places because the extremists are actually proselytizing with all of the others and making the population more extreme, which you then will release and you're surprised that there's a 90% recidivism rate. So we drove that down to under 10%. And then we also realized a huge, big idea and that is that you cannot kill or capture your way out of industrial strength insurgency. You have to reconcile with as many of those in the rank and file that you can while you increase the pressure to either detain or kill the irreconcilables, the leaders of Al-Qaeda in Iraq, the Sunni insurgent groups the first year. And then the second year the shia militia. Huge big ideas. And, you know, the very first day, my first speech when you take the colors and give them back to the Sergeant Major, you go to the podium and I said we are going to secure the people and we're going to do it by living with them, which is again 180 degrees different from what we had been doing. And then gather the commanders right away, then put out a letter to the soldiers, sailors, airmen, marines and

civilians of the multi-national force of which there were ultimately, you know, actually if you take all the contractors, it was well over 300,000. And they have to understand the big ideas at my level and translate them into action under body armor and Kevlar, doing something that only our soldiers could do, which is engage the enemy and engage the population. And that continues and ultimately you redo the mission statement, the campaign plan, and you brief up sideways, press, and all the rest of that. The overseeing the implementation, again we literally sat down and said here's how I'm going to use my time. We had a huge butcher block piece of paper and said this is what we're going to do every single day. This is what we do two or three times a week, once a week, every other week, monthly, commanders' gatherings quarterly, civil military campaign plan review with Ambassador Crocker, the greatest diplomat of his generation. And then we had a formal process. We had all these Lessons Learned Teams all over the battlefield and they would funnel their lessons back through their colonels. And my chief of staff, a Two-Star, would gather it together and then we would sit down and one hour of my battle rhythm every month was with them. You have to do it formally. That didn't mean that I didn't make changes at other times. It didn't mean that we didn't have the planners in who would confront you intellectually. You always wanted to do that in the morning, by the way, not the afternoon when it's 110 degrees and just grinding you down. But that's how it works. And we'd refine them and do it again and again and again. So think of Netflix. First big idea for Netflix was let's get movies in the hands of customers without brick and mortar, like Blockbuster. So let's put Blockbuster out of business. Great, big idea, communicated, executed. Get down here. Two years later, how it's going? Fantastic! Blockbuster is going out of business, but everybody else is

getting that business. By the way, test question, where is the one Blockbuster store still surviving in America? Big Bend, Oregon. Correct. That's a really seriously contrarian place that refuses to allow Blockbuster to go completely out of business. So the second big idea. Now broadband speeds are fast enough, let's have them download content. So they figure out how to do that, communicate it, oversee it, get down here. How's that going? Fantastic! I mean we're bigger than ever. By the way, he's going global in here gradually as well. But what do we do next because now everybody else is doing that? So he said let's make content, \$100 million on House of Cards alone. Phenomenal success. And so communicate it, do it, get down here. Now everybody else is doing that too, so what do we do now? Let's buy some movie studios. Let's do big productions. And they do. And the first one, I thought, was sad because you had, this is the movie about Stan McChrystal and you had Brad Pitt playing him. And, you know, I think Brad Pitt is a tremendous actor, but that was not one of his finest hours. I've never even been able to stay awake long enough in the movie on a plane to actually watch the part where I actually emerge in the very later stages. And I'm played by the guy who was Gladiator, the Australian actor. And so the other thing...obviously as I was very disappointed that Brad Pitt didn't hold out to play me. (Laughter) Anyway, so they did this and then have continued. Getting the big ideas right is what, I mean, everything is about whether it's business or it's foreign policy, it's economics, it's military strategy. And, you know, where we've talked about, the big ideas that most matter right now are those that deal with the U.S.-China relationship, I think.

CHAIRMAN MARIE-JOSEE KRAVIS: An important point that you make, though, is that a big

idea doesn't come when you're sitting under a tree and you all of a sudden get inspiration. The big idea implies recognizance and work and...

GENERAL DAVID H. PETRAEUS: It's iterative. I used to say it's not the big apple, it's not the Eureka moment, it's a little seed of a big idea. And then you shape it, but you do it iteratively, inclusively. You want everybody involved in this. You want everybody inside the tent, or else they'll be outside the tent doing what folks outside tents do. It took us, I think, something like eight months when I went to the CIA. We actually sat down and the big question I posed in the beginning was what are the enduring missions of the CIA? And what are the emerging missions? And, of course, the biggest of these had to do with big data and cyber and all the rest of that. But again, it helps to do that formally because then you sit down, now you have the big ideas and you can then develop a true campaign plan and then programs and policies and budgets and everything else fall out. And so again, as we talked about with counter-extremism, if you accept that ungoverned bases will be exploited, we have to do something about it. We have to lead. You want a coalition and you want Muslim countries in it. You have to have a comprehensive approach and that it has to be sustained because this is a generational struggle. Again, as we mentioned, we've defeated the army that was the Islamic State, but not the insurgent groups, the terrorists, or the ideology, or the cyber-caliphate. If you get all that, the policy sort of falls out and you don't have to go back constantly and ask when are we going to do this or do that. You're trying to figure out how to do this as economically, efficiently and so forth. So big ideas really, really matter. And I hope that, for example, with the U.S.-China relationship, that the idea of a

coherent and comprehensive approach can be one that starts to emerge, I think, in greater relief. Noting again that there are lots of the elements of that that do exist and, of course, we heard Secretary Pompeo at Bilderberg. We can't repeat what he said, of course, by the ground rules. But, I mean, he very much gets this kind of thing. And now, of course, the nominee, well, the nominee to be acting, who will be the acting Secretary of Defense, is actually his West Point classmate, Mark Esper, who was in combat as a captain with the 101st Airborne Division. I knew him, got to know him after that. And he went to Capitol Hill. He was with Raytheon. Picked up PhD along the way and even managed to serve in not just the active army, but the National Guard and the Reserves. But the big question there has to do with policy of course. And again it's about big ideas which is different from running the institution that is the army. Now you're talking about employment and the policies. And it'll be very interesting to see if two members of the Class of '86 of West Point can come together and contribute to that.

CHAIRMAN MARIE-JOSEE KRAVIS: Well, we'll have to have you come back and maybe elaborate on that. But, David, thank you. I mean you've done so much in terms of public service, but since then. We mentioned your professional activities at KKR. But I know you're also on the board of the Institute for the Study of War, the Woodrow Wilson Center, so many veterans' organizations to which you devote so much time. You're teaching at CUNY and in California, a fellowship at Harvard. You're doing so much. And I just want to thank you for your public service. (Applause)

GENERAL DAVID H. PETRAEUS: Oh, it's a privilege. Thanks for the invitation. Thank you.

Thank you very much.