

Lecture Transcript

Brief Remark
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Is the American Century Over?

Thank you very much, Prof. Park for that generous introduction. Let me say it is always a pleasure to come to Seoul and to South Korea. South Korea is one of the world's great success stories. And it's always a pleasure to be here, so I appreciate your warm welcome.

Let me address this question [of] whether the American century is over, by taking the year back to 1941. In the year 1941, the American publisher, Henry Luce, who is the publisher of *Time* and *Life* magazines, coined the phrase the American century. He did so because he wanted the U.S. to play a major part in WW2, at that time, there was a strong feeling of isolationism in the U.S. Many people were resisting the idea of participating in the events in Europe and Asia. Luce felt that this was a mistake, so he used this terminology of the American century, and that question 'is the American century over?', actually, has been the title of a book which I will publish next March, which is to raise the issue, whether 100 years after Luce first used the term, we still see a role in which the U.S. is the central player in the global balance [of] power.

There are many who doubt it. Indeed, there are many who say that what we have seen is a situation where the United States is in decline and in which China will replace the U.S. as the dominant country of the 21st century. For example, if you look at my colleague Neil Ferguson, who is a very distinguished British historian, he argues that the 21st century is the Chinese century. Or, if you look at the title of the book published in Britain, written by British writer Martin Jock, the title tells you everything. The title is: "When China

Rules the World." and, if you look at public opinion polls, you will see many polls showing people in the U.S. and elsewhere believing that China has even replaced the U.S. or is about to replace the U.S. as the world's leading country. In April [of] this year, the *Financial Times* which is [a] very distinguished financial newspaper, there was a headline saying that 2014, was the year that China passed the U.S. And they quote it from a study by a unit of the World Bank, which said if you measure the economy and purchasing power parity, China has passed the U.S. this year. And, just a week or two weeks ago, Joe Stiglitz, the Nobel prize economist published an article, and project which essentially said this is the year China passed the U.S. So that would suggest that there's a fair amount of opinion that would say indeed, the American century is over. I am going to make an argument that disputes that. That says the American century is not over. And that when we reach 2041, the U.S. will still be the central country in terms of the world balance of power, and not China, in that of overall power, that China is not about to pass the U.S.

But, why does it matter? After all, we shouldn't worry too much about these things. If it's just a matter of prestige, or positioning, and so forth. The answer is it does matter because if people think that one country is rising and another is in decline, there is a fair history that this can lead to policies which are dangerous. And which can be a prelude to conflict. There is a famous belief which is, goes all the way back to Thucydides' explanation for the origins of the Peloponnesian War in which the Greek city-state systems tore itself apart, which says

that the causes of the Peloponnesian War were the rise in power of Athens and the fear it created in Sparta. So by this type of reasoning, the rise in the power of China causing fear in the U.S. could create the types of uncertainty that would lead to a conflict that might disrupt this century.

Indeed, people have in this year of 2014, harkened back a hundred years to WWI, in which the European state system tore itself apart and ceased to be the center of the global balance of power. The argument is often made that World War One was created by the rise in the power of Germany and the fear that created in Britain. In fact, the history wasn't so simple. Some people would argue that it was the rise in the power of Russia and the fear that created in Germany, which was really the heart of the problem. But, however one judges this, it's clear that periods where there is uncertainty about whether an era is over or whether one country is passing another can lead to attitudes that can have dangerous results. So, let's look a bit more carefully at that question of whether the U.S. is in decline, and then look at the question of whether China will pass the U.S. in the next quarter century or so.

On the issue of whether the U.S. is in decline, it is important to realize that it's very difficult to know what decline really means in terms of countries. When you look at a human being, one individual, you will get pretty good judgment of a life cycle. You can look at my biography, see my age, and you have [a] pretty good estimate that I am in decline, there's no question. But, if you look at a country, it is much harder to know what the life cycle is. For example, in the 18th century, when Britain lost its North American colonies, there was a British statesman, Horace Walpole, who said "Woe to Britain, we're now reduced to a miserable little island, like Sardinia." So there was a general sense that this was the end of Britain's glory. But, Walpole said this on the very eve of Britain's greatest century, its second hundred years so to speak, which was produced by the industrial revolution. And, therefore, it's an example to us to be very careful not to think when you see something moving in one direction, it's going to go that way forever.

Let me give you another example, which is Richard Nixon and Henry Kissinger, often are cited as far-seeing in terms of their guiding of U.S. foreign policy in 1970 and 71, particularly the opening to China. But it's also true that

Nixon and Kissinger believed that the United States was in decline. They wrote about this and they said the world is becoming multi-polar and we have to adjust to this decline. Well in one sense, they are correct because in 1945 the U.S. had about almost half of the world economy. And, that was the result of the devastation of WWII. Europe, Japan, China all had been destroyed by WWII. The U.S. had been strengthened. So, if you ask when did the Americans have more power compared to any other country, it would probably be right at the end of WWII because of what you would call this WWII effect. But, if you measure then from 1945 to 1970, the U.S.' share of the world product declines constantly over that period from nearly 50 percent to about 25 percent in 1970.

But, if you start your measurement earlier, and you say what was the U.S.' share of the world product in 1900? It's about 25 percent. And then, what was the share of world product in 2000? It was about 25 percent. So, what was abnormal was this very high level after 1945. So, if you plotted a curve for the century as a whole, it starts out at 25 percent, goes up to near 50 percent and goes down to 25 percent. Nixon and Kissinger seeing the shape of the curve from 1945 to 1970, properly said this is decline. It was decline. But, what they didn't understand was that the decline wasn't going to continue. Indeed, instead of the world becoming multi-polar, as they said in 1970, by the end of the century the world was unipolar. The U.S. was the world's only super power, partly because the U.S. kept its share, but partly because of the collapse of the Soviet Union, which had balanced American power.

So, that's an example from two statesmen who are often cited as being more far-seeing than others. Who saw decline, which was true, but they assumed the decline was going to continue, which was not true. So I think the moral of the story is to be very careful about projecting in a linear fashion the trends that we see in global politics. Even more misleading are the kinds of evidence we get from popular attitudes and public opinion polls. For example, if you took a poll in 1960, inside of the United States, there was a wide spread feeling that after the Soviet Union launched Sputnik in 57, the U.S. was falling behind and was in decline. Krushchev visits the U.S. and says to the Americans "we're going to bury you." And in economic terms, the Soviet economy was growing more rapidly than

the American economy at that time. So, the polls showed Americans believed that they were in decline. Of course, that proved to be a mistake. In fact, by the end of the century, not only had the Soviet Union not passed the Americans, there was no more Soviet Union.

In the 1980s, you again got polls that showed a majority of Americans thought that their country is in decline. This was the response to the extraordinary success of the Japanese economy, which had double digit rates of growth and which was showing extreme skill and expertise in manufacturing. This again led to a feeling that the Japanese were taking over. There was a book by one of my colleagues called, "Japan is Number 1, there was another book with an alarmist tone to it, said the coming war with Japan. Of course, we have seen for [the] last twenty years, a Japan with a growth rate which has been around 1 percent. So, the public opinion polls are misleading. In another way of putting this, in the 1960s or so, Americans thought the Russians are 10 feet tall, in 1980s Americans thought that the Japanese are 10 feet tall, and today many Americans think the Chinese are 10 feet tall. But, I think what we learn is that with time, we get a certain perspective on the fact that the attitudes that are measured by public opinion polls are telling you something about people's mentalities, they are not telling you anything about geopolitical reality.

So, let's look more carefully at those realities. And there again, we want to be careful about the words that we use. Decline is a quite misleading or confusing concept, because it pushes together or merges together two quite different things: Absolute decline and relative decline. Absolute decline is what happens to a country which suffers from internal disabilities and therefore is overtaken by others. An example of this might be imperial Spain, Philip the Second's Spain in the 17th century or so. Relative decline is when you are doing fine but others are doing even better. That's what happened to Netherlands which continued to prosper through the 17th century but Britain did even better. So, Britain passed the Netherlands, the Netherlands had relative decline not absolute decline.

But the case that's often cited and often used by editorial writers and others is Ancient Rome. And the argument is that the story of Ancient Rome and the Roman Empire that declined, the fall of Rome, will be the model for what will happen to the United States. And the prob-

lem with that analogy, though it's popular with editorial writers and so forth, is that it doesn't fit the facts. Ancient Rome declined not because of the rise of another empire, it succumbed to the onset of barbarians and it was not able to defend itself against these various waves of barbarians because it was racked by internal warfare and its economy had no productivity. And so it was unable to fend off these relatively minor enemies because it was internally in decay. That's an example of absolute decline. Now if you look at the United States today, there is a mood in Washington which is very sour about American institutions and so forth. And there will be many people who say that American institutions are in decay and it's like Ancient Rome. But the facts really don't fit that.

If you look more carefully at what is happening in the United States, you will see that there are some very powerful trends, which are very different from what we would call absolute decline in Ancient Rome. Start with demography, among the major states in terms of their share of world population, the ranking today is China is number 1, India is number 2, the United States is number 3. UN demographers who look to the year 2050, say the ranking will be India number 1, China number 2, and the US number 3. What's interesting about that is the U.S. is the only major developed country which will keep its rankings. Europe, Russia, Japan, will all diminish in terms of their share of world population. The United States will not. So, demographically partly because of fertility rates and partly because of immigration, the United States will continue to enjoy considerable strength.

Another favorable trend is energy. A few years ago, a conventional wisdom was that the world reached peak oil, and that the United States was increasingly dependent on energy imports, and that dependence on energy imports would weaken the U.S. in this period of decline. Instead of that, because of the shale revolution, both in gas and in tide oils, what you're seeing is that North America is likely to be self-sufficient in energy in terms of imports in the 2020s. So here is this view of North America, as in trouble, in fact, if you look at the trends in demography and energy, quite the contrary. It will be a much more vibrant area than people realize. Add to that the fact that if you look at research and development, the United States is still the leader in research and development, including some of the

technologies, which will be most important to this century. Technologies like bio-technology and nano technology as well as the newer aspects of information technology. The U.S. still is in the lead.

And this is bolstered by the role of American Universities. If you look at the rankings of universities by impartial observers, non-American, such as Shanghai Jiao Tong ranking of world universities, the Americans are far ahead of every other country. And that combined with an entrepreneurial culture, which takes ideas from universities and brings them to a production, in economic terms, rapidly, than in many other countries. So if you try to draw analogy as people do between absolute decline of ancient Rome and absolute decline of the US, those two pictures that I described with facts and figures. just don't fit together. The analogy from Rome to the United States just isn't tenable.

Let's turn then to the other concept of decline, which is relative decline. And relative decline is a different term. It might also be called the rise of the rest. Go back to what I said about America's share of world product. At the beginning of the 20th century, U.S. is a quarter of world product, goes up to 50%, in the middle of the century, you end the century at 25 percent. The general projections made by the International Monetary Fund, is the American share of world product will decline to something like 18 percent over the next decade or so. Now, you could call that relative decline. But it also represents the rise of the rest. It's not that the United States is losing a lot or is in absolute decline, but it means that other countries are achieving more. And, that indeed has been partly as a result of American policy. After WWII, one of the key goals of American policy was to create international system and economy in which Europe, Japan, and others prospered. And in the 1990s the United States helps to sponsor the inclusion of China in the World Trade Organization. So to some extent as a policy objective, the U.S. felt that broader growth internationally was good for the U.S., as well as good for the rest of the world. So you can call it relative decline, but you could also call it as I said, the rise of the rest. Now, what will this mean? One possibility is it means that China will pass the U.S., that one of the rest, will become large enough to replace the U.S. and I'll come to that in a minute. But even if China doesn't pass the US, it does mean that there will be more actors in the system. There

will be many countries, (whether it be Brazil or Indonesia, we've already seen the success of Korea) that will be increasing. And, as you have more actors in the system, there is a problem about how do you get action, how do you get collective action. And I think President Park referred to this in his introductory remarks, the danger may not be the rise of another single country like China, it may be entropy. An inability to collect actions together and get things done. There was an American diplomat, named Harland Cleveland, who said the key problem today is how do you get everybody into the act and still get action? And that may indeed be much more of a problem than being passed by any one country.

And the answer to that is essentially to create institutions, and networks and alliances. That's an area where the Americans have been relatively successful over the years. If you look at the number of countries that are either allied or closely associated with the United States, according to the London *Economist*, there are about 60 countries in that position. Whereas, if you compare for example, China, it has very few, close allies that fall in such a category.

So that brings me to the central question about whether the American era is over, which is the question of whether China will pass the U.S. in overall power. Now, to answer the question at a more serious level than the type of the headline we saw in the *Financial Times* last April, we have to distinguish three different aspects of power. Power is the ability to affect others to get the outcomes you want. And you could do that in three ways: by coercion, by payment, and by attraction. The first two are which I call hard power, and the third which I call soft power. So let's look at economic power since it is one that gets most attention, then at military power, and then soft power. Now, on economic power, most analysts tend to focus on overall size. And, the basis for this headline, which got so much attention in April, was the view that the overall size of the Chinese economy measured in purchasing power parity was larger than the U.S. this year. But, the first thing to notice about that is that purchasing power parity is a measure economists use, that is useful for some purposes such as measuring welfare, but not so useful for other purposes such as judging power. So, if I want to pay for a house or a haircut, and it's a lot cheaper to get houses and haircuts in China than [the] U.S., then at the

same level of income I'd do better in China than I'd do in the U.S. And PPP (Purchasing Power Parity) is able to correct for that. But if I want to import oil or if I want to import parts for a jet engine, I pay for those at the exchange rates. I can't go to somebody and say in PPP you should let me have oil more freely. No, you pay for it at the exchange rate. And at the exchange rate you see that the United States still remains ahead of China, despite these headlines we saw last April. Even if you do use exchange rates however, at some point it seems likely that the Chinese economy will be larger than the American economy. If China continues to grow at the type of growth rates that it's had, even somewhat diminished, let's say 7 and a half or 7 percent, and the U.S. grows at 2 and a half to 3 percent, which is the current projections, at some point a country with 1.3 billion people growing at that rate versus a country with 350 million people growing at a lower rate, those curves will pass and China will be larger than the U.S. economy at exchange rates.

But there are questions even here, some people say this will happen by 2020. *The Economist* has a little guessing game they play from time-to-time, and 2020 has become a figure which is often used. But, the trouble with that is it's not clear that China's growth rate is going to stay at 7 and a half percent. My colleagues at Harvard, Lant Pritchett and Larry Summers, have recently published a paper, saying if you look at countries which have experienced high rates of economic growth, the one thing you can say is that eventually they will return to something like a more normal average rate of growth. Economists call this regression to the mean. And Summers and Pritchett, looking at countries that have had high rates of economic growth, even without knowing anything about China, just call China x, say a country with the rate of growth China's had, if you look ten years in the future, its growth rate will be more likely to be about 3.9 percent, not 7 percent or 10 percent. So one would expect a regression to the mean, in which the Chinese rate of growth will return to a more normal average. And the question of whether Chinese growth will actually be at that rate or not, there are all sorts of uncertainties relating to demography and political transition. But, it's more likely that you'll have some reduction in the Chinese rate of growth than at the rate in which you've seen it in the past three decades. But, the point is

even if China does pass the U.S. at some undisclosed date, ten years, fifteen years, whatever, in overall size of its economy, overall size of an economy is not the only measure of economic power.

Another way of measuring economic power, in addition to size, is per capita income. Per capita income, gives you a better measure of the sophistication of an economy. And in per capita income, the United States is about four times larger than China. And if you just project out the growth rates, even high growth rates of the United States and China, you'll find that China doesn't pass the United States in per capita income for decades to come. It could be 3 or 4 decades, if then. So if you think of not a size by sophistication of an economy measured by per capita income then China is not about to pass the United States. Now what does sophistication mean? Well if you have for example trade statistics, you'll notice that China passed the Germany, as the world's largest trading country about 2012, and that's very impressive. But, when you look at Chinese trade statistics, you notice that a lot of the trade is representing value added which comes from labor rather than more high value components. So if you take something like a cellphone, and you ask how does this show up in Chinese trade statistics? Well components are imported to China, and this is exported from China where it is assembled (pointing to his cellphone), and the value of the whole phone shows up on Chinese trade exports, but the amount of value added China gets to keep for its gross domestic product is only a few percent. And another way of putting it is it's very good for Chinese jobs, spelled with a small J, but what the Chinese complain about is that they have lots of jobs, but no Steve Jobs, spelled with a capital J. Because when you look at the value added in this device, most of it goes to Steve Jobs, not to Foxcon jobs, so that's the meaning of sophistication. As the aggregate trade numbers give you one thing, but when you look more carefully, value added gives you something else.

Similarly you could make an argument related to sophistication of economy, in related to money and finance. People will often point out that China has several trillion dollars of reserves, and they say this shows that China is more powerful than the U.S. Because if China were to dump these dollars on world markets it could bring the United States to its knees. But, ironically if China did

dump these dollars on world markets, it might bring the United States to its knees, but it would bring China itself to its ankles. Because China is so dependent upon exports and opening to the American market that it would be self-destructive for China to do such a thing.

Or another example would be in the question of the Yuan becoming a reserve currency. China would like to see the Yuan eventually become a reserve currency, at some day it may, and you're seeing reports of more trade being cleared in Chinese currency, the total now is about 7 or 8 percent. But about 83 percent is cleared in American currency. So there's quite some distance to go and you say 'well it will happen quickly,' not until there are deep and reliable capital markets in China, which are not controlled by a political party for political reasons. If there's no rule of law, and when the interest rate and the convertibility of your money can be controlled by a bureaucrat for political reasons, then you're not going to have the confidence that's needed for a reserve currency. So these are examples of what I mean when I talk about the sophistication of an economy. China has made enormous progress, don't mistake me, I think we should all applaud that. But don't let the size of the economy mistake the fact that in overall economic power, much of the economic power, comes from having a more sophisticated economy, not just a large economy. So in that sense, I think that we should be careful about economic power to use both measures. Both size and sophistication as we judge economic power.

Now what about another dimension of power which is military power. There you'll notice that in terms of military expenditure, China has been increasing its military budgets in double digits for the last decade and it's an impressive growth of military capability. But American military budgets are still about 4 times larger than China's, if you take the accumulated capital stock, there's the equipment that's built up over the years, then the advantage of the Americans over the Chinese is more like 10 to 1. At the same time China is increasing its capabilities, particularly at the regional level. China has its first aircraft carrier, converted Ukrainian carrier, its planning to build 2 more, it is building ballistic missiles and cruise missiles, which can put American ships at risk, and in that sense China is increasing its military capabilities. It's interesting to note however, that this more likely to be a challenge to the U.S.

in the seas around China than at a global level. Or putting it this way, if China's going to become increasingly dependent on oil from the Middle East, while the Americans are less dependent on oil from the Middle East, China has to look at the sea lanes through which that oil will flow to reach China. They may with their increased naval capacity, be better able to protect the Straits of Malacca, they're not going to be able to protect the Straits of Vermouth, that'll still be the American baby. In other words, as a global military power, China will still be a long distance behind the United States, even as it increases some of its capabilities in the regional domain.

And finally let me turn to the third dimension of power I mentioned which is soft power. Last week, President Ji Jinping said that China needed to increase its soft power. He was following in the footsteps of President Hu Jintao, who in his address to the 17th Party Conference of the Chinese Communist Party in 2007, argued that China should increase its soft power. That is a very smart strategy for China. If your hard power, economic and military increases, what happens? You're likely [to] frighten your neighbors into coalitions against you. But if you can increase your soft power, your attractiveness, at the same time that your hard power increases then these coalitions are less likely to be effective. And in that sense, to be able to combine increased soft power with hard power is a smart power strategy for China. The trouble is, the Chinese are having difficulty implementing it. If you look at recent polls taken by the BBC, or the Pew Charitable Trust, you'll find that China does not do very well with its neighbors in Asia, doesn't do all that well in Europe, it does a little better in Africa and to some extent in Latin America.

Now why is this? Well there are really two limits on China's ability to increase its soft power despite the billions of dollars it is investing in this effort. One is the unwillingness of the Chinese Communist Party to unleash the talents of Chinese civil society. A great deal of a country's soft power doesn't come from government broadcasting, particularly if its propagandistic and nobody trusts it, it comes from civil society, everything from universities, to student contacts, to, let's say film industries like Hollywood and so forth, and those flourish best when the government leaves them alone. If the government tries to control, you essentially curtail the talents that you are trying to

use to attract others.

The other problem that China has in increasing its soft power is nationalism and its territorial disputes with its neighbors. What you see is that China has a number of disputes with a large number of its neighbors. Japan, Vietnam, Philippines, India and so forth. And that makes it very difficult for China to attract those countries. Let me give you a concrete example. China and Philippines disputed over a reef in the South China Sea called Scarborough Shoal in English. And the Chinese sent in their coastguard ships, their hard power and pushed the Philippine boats out of Scarborough Shoal. The Philippines have taken this to the tribunal for the law of the sea, the Chinese say we're not going to play that game. We don't want mediation of this. Now, that means that China has successfully used its hard power to get control of Scarborough Shoal. But guess what happens to the efforts to increase the attractiveness of China in Manila, the capital of the Philippines. You can setup a Confucius institute in Manila to make the Philippines more aware of the attractiveness of traditional Chinese culture, but if at the same time, you're pushing their ships out of an area that is contested, you're not going to seem very attractive. And when I've asked Chinese friends, how are they going to solve this problem? They say it's very difficult because of nationalism. Any Chinese official who says yes, let's give away this, or let's mediate this, or let's smooth this over, has to face competition from another Chinese official or politician, who says you can't give away the national patrimony or a core interest or what have you. So those two limits, civil society and nationalism in territorial disputes, set limits to how far China can go in terms of increasing their soft power.

Now what does that summarize to? It summarizes in my mind the fact that even when China has a larger economy overall than the United States, measured at exchange rates, that China will not be equal in economic power, military power, or soft power to the United States. I once asked Lee Kuan Yew, at a session we had together, whether he thought China would pass the United States, in the first half of the century or so. He said no, he said I think they will give you a run for your money, he said, but I don't think they're going to pass you. And I said, "well why do you say that?" And he said: "China can draw on the talents of 1.3 billion people, the United States however, can draw

upon the talents of 7 billion people, and what's more, as long as it keeps accepting immigrants from around the world, it can recombine them in a diversity, that is more creative than anything that will be established by ethnic Han nationalism." This of course from a man who is ethnic Han. And I think that's probably correct. That the summary that I went through in trying to give you numbers on this, is probably close to the judgment of Lee Kuan Yew, with his overall estimate.

Now where does this bring us in conclusion? First of all it means that the behavior of China is not an existential threat to the United States. The Chinese do want some revisions in the international system, particularly in the regional context, but not necessarily globally. China benefits from a number of large global organizations like the World Trade Organization, the IMF or the UN Security Council, where it has a veto. It's not willing to kick over the table so-to-speak, but to let the game go on. The other point is that there is a regional balance of power in Asia. There is the fact that countries like Japan, India, Australia, Vietnam, do not want to be ruled by China or bullied by China, and the net result of that is that these countries would like to have an American alliance. In that sense, the problem for the United States is not to try to contain China, we don't want a Cold War type containment, we want in fact, as President Clinton said in the 90s, to integrate China into the international system. Or as Robert Zoellick put it when he was working as Deputy Secretary of State, we want to encourage China to become a responsible stakeholder. But it does mean by having an active American presence in East Asia, that we [the U.S.] can help to shape the environment which will encourage responsible Chinese behavior.

And that means that the so-called rebalancing toward Asia, which has been the Obama administration's policy, is I believe a wise policy. It's not as some Chinese say a containment policy of China, it is an effort to reinforce the pre-existing Asian balance of power, so that China has incentives to be a responsible player in the region, rather than to act as a bully. And that I think means that when you combine it with the fact that the United States and China will have areas of cooperation, where there is a positive sum game, whether it be monetary stability, dealing with climate change, dealing with pandemics and so forth,

means that we don't have to fear a situation such as that I described at the beginning, a 1914 situation transposed to 2014. In fact I think that if one takes the analysis that I have, one can argue that the relations with the U.S. and China can be quite reasonable and not ones which will create a catastrophe such as the world experienced a century ago. The reason is that in 1914, when Britain succumbed to the fear of a rising Germany, Germany had already passed Britain. And Germany essentially by 1900 had a greater industrial production than Britain. If my analysis is correct, China's not about to pass the United States, that means there's more time to manage the relationship, less reason to succumb to fear, and that we can focus more on the positive sum aspects of this relationship rather than let it deteriorate into a zero-sum situation.

So to take you back to where I started, [which] is why I think it is important to ask the question of will China overtake the U.S. and whether the American century is over. If my answer is correct, that the American century is not over, and that China will come close, but not overtake the U.S. and that there's room for cooperation, then I think that we can be more optimistic about what we'll see in this 21st century.

So thank you very much for your attention. ■

Q&A Transcript

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Is the American Century Over?

Nye

It's a good question. How would we know? [laughter] If the American economy were to go through a period of very low growth like Japan has in the last two decades say one per cent or less, then I think I would begin to worry. Another example would be if the Americans were unable to continue their investment in military capabilities for example, if you weren't able to have the investment in the defense budgets that are necessary. Or if the United States turned inward if the attitudes inside the United States were to say 'no more immigrants' Americans always complain about immigration but we fortunately can't do anything about it. But if we actually did something about it, if we really stopped immigration then that would violate this Lee Kuan Yew proposition, we would lose all the creativity that comes from the immigrants we get. So those are three indicators to me: low growth, military budget that can't keep up and inward *turning-ness* which cuts us off from our sources of external refreshment that comes from immigration. Those will be three indicators.

Moderator

What is your assessment of the likelihood of that happening?

Nye

There was a feeling after the financial recession of 2008, there was a feeling that this was the beginning of that period of low American growth. In fact, there were many people in China who wrote articles saying that this is the proof of American

about U.S. decline. And in fact, Chinese foreign policy became more assertive as a result of their belief that the low growth after 2008 while Chinese growth was high was proof that China was rising and U.S. was in decline. What they did was take a cyclical downturn and assume it was a sectoral trend. The fact that American economy is growing at 3 percent now indicates that that was a mistake. So I think if the Americans hadn't recovered from the great recession, then I think I would be worried. That doesn't mean there are no problems in the American economy, there obviously are. But I think a period of very low growth that continued after 2008 would be a cause for concern.

Moderator

When you were talking about the argument about the absolute decline of U.S. power, you listed up factors that gives [a] more optimistic view on the future of U.S. power. What are the weaknesses of United States as [a] super power? And how do they balance against the strength of the U.S.?

Nye

One of the problems that the Americans are having right now is a political polarization and people talk about it as a gridlock they say it is very hard to get things done. I think that is true but I think it is not unprecedented. If you look at the American government system, it was created to be inefficient. I mean the American founding fathers created the political system to preserve liberty not to maximize efficiency. And the net effect of that it is very hard at times to get things done. On the other hand, there is still a fair degree of power in the executive, particularly when it comes to foreign affairs. And even in a period where people say there has been this terrible gridlock, the congress before this, the first two years of the Obama administration, you passed legislation on health care which even though is controversial, nobody had been able to pass this since the days of Harry Truman, and you also were able to pass major stimulus package which was very important in getting out of the recession you were able to pass regulations on governing the financial industry to try to reduce some other risks of another financial crisis. So the argument that congress can't do anything is a bit exaggerated. But on the other hand it is true that the American system

is a system full of vetoes. I mean it was designed to be full of vetoes. So if you want an efficient system, don't imitate the United States. If you want liberty, yeah, but not efficiency.

Moderator

Let me ask you the same question but focused on China. China has a very authoritarian political order. It is proud of its efficiency and effectiveness. What is your view on the argument that that kind of system is more effective in resolving foreign policy issues and even remodeling international order?

Nye

I think I didn't want my comments earlier to in anyway denigrate the extraordinary accomplishments of the Chinese. I mean, I said as I started, Korea is a great success story and it is, when you look at Korea in 1960 and Korea today as a leading country in the OECD. That is an extraordinary accomplishment. China hasn't reached that level yet. But China has raised hundreds of millions of people out of poverty. And Deng Xiaoping's use of market has been quite extraordinary. So let's give China credit for what has been done. The question is whether it is a political system, one that can be exported, sometimes people call the Chinese system market Leninism. You combine markets with an authoritarian political structure. But it is not clear that's a market export. Notice, if you take that to Zimbabwe you get the authoritarianism but not the market, so it is not clear; unlike the Soviet ideology which they wanted to export throughout the world. It is not clear that the Chinese system is for export. But the other question is domestically how well will the Chinese system work as you get per capita income about \$10,000. If you look at the history of South Korea or Taiwan, you will notice the ability to run a country in an authoritarian fashion becomes very difficult when you reach around \$10,000 per capita income and a large middle class.

Moderator

It came earlier for Korea.

Nye

For Korea it came about 7 or 8 I think, so China is now

approaching about \$10,000 per capita income in purchasing power parity. They have at [that] stage have to deal with the problem of political participation. India was born with a constitution from Britain which solved part of the problem of political participation. China hasn't figured out how to do that yet. So I think the interesting question for China is: will this system continue to work efficiently as you begin to have more demands for political participation? And particularly with a lot of information that you get on the internet, even with control of the internet there's just a lot more information leaking around in the system. So I think the question for China is, they've done very well and can they continue in the same fashion?

Moderator

When I was listening to your lecture on the issues of power, I put myself not in the role of great power but middle power countries, especially ally middle power countries and asked the same question on East Asia. China is our big neighbor. When we see the trend we review that, we should not make a linear projection. But when we see the trend, we see middle power countries' economy is getting deeply integrated into the orbit of China's economy. When we talk about the global level, I buy all the arguments that you've made, but when we come down to the regional level and look at the same issue not from the position of super power but from middle power countries, issues become much more complex and maybe even full of security risks. So if the trend in economic side is linear, deeper integration into Chinese economy, but at the same time as you mentioned in your lecture, many of East Asian countries are militarily allied to the U.S. and even more are cooperating militarily with the U.S. So we see two different kinds of trends. One trend, Korea in the realm of military is running in the opposite direction of the trends in economic realms. I would like to ask you to put this continue. I ask that question in a different way. Would it be unimaginable to think about the possibilities of some of East Asian countries changing, adapting, adjusting security policy that would be in more conformity with economic trends?

Nye

It is a very good question and the answer may vary with different countries. So the answer you will get in Cambo-

dia and Laos would be very different from the answer you will get in Korea and Japan. But let's take Japan as probably the largest in terms of it's the 3rd largest economy and it has in the Japanese self defense forces. a considerable military capability. Some people would have said "but as Japan, as China gets more and more powerful economically, Japan would move away from its American alliance and find the Chinese alliance makes more sense. I think that is very unlikely for a couple of reasons. One is, China wants to be clearly ahead of Japan and when Japan wanted to join the UN Security Council China blocked it. So China's picture of East Asia doesn't have a picture of Japan as an equal. And in addition, you have territorial disputes Senkaku – Daiyu island dispute, it is not clear that China is willing to accommodate Japan on that or that Japan is willing to accommodate China on that. So in that sense, I think, if you ask 'what's happening?' What's interesting is in last few years, as the disputes has become more difficult, trade between China-Japan has maintained fairly high levels, Japanese investment in China dropped [by] half last year. And the Japanese are looking at this situation and saying not only is there cheaper labor in Vietnam or Bangladesh but also we are not so secure what's going to happen to our plan if there's another incident. So there's a case where instead of the economics leading to tighter integration is actually reducing. Vietnam would be another example. When China put the oil rig in the Paracel islands, you got riots, anti-Chinese riots in Vietnam. Even though there is an increasing economic interdependence between China and Vietnam. There's also a considerable degree of nationalism in Vietnam in terms of not wanting to be dominated by China. So I think it would vary by country. I mentioned also the Philippines as another case. I think if your country is like Cambodia or Laos, China can use its economic power pretty easily to control. There are cases in-between Myanmar or Thailand where they may have more influence on cases like Japan or Vietnam, doesn't look to me like it is going in that direction.

Moderator

One could also argue that alliance could be a safety net if the trend of economic integration deepens and widens into the future.

Nye

I think the fact the most countries in the region don't want to have to choose between the United States and China, they want to have their cake and eat it too, which is understandable. That maybe a good thing, it may be actually something that keeps the relations in the region more peaceful.

Moderator

You talked about smart power strategy; the ability to combine soft power and hard power in ways that make policy workable within the 21st century context of power diffusion. When we talked about alternatives to the American century, we have to also think about what their alternative would be and whether China could play that role. If the right strategy to pursue for any great power in the 21st century context of power diffusion and economic multipolarity and military polarity, do you think China has the capabilities, willingness to combine soft power and hard power in ways that not just, promotion of Confucianism, but promotion of wider, regional and global agendas?

Nye

It is an interesting question and I guess, you know, if China could overcome some of these territorial disputes, it might be able to do better. I have sometimes said to Chinese friends you ought to go back to the so called charm offensive that you had at the beginning of 2000s. And, if you did, you would do much better with your neighbors than the policy you are taking now. And, when I asked them why don't you do this? They say it's very hard given the climate of nationalism at home. But if they could overcome that, In other words, if China could say instead of insisting on dealing with each of these disputes bilaterally, where we can overall each of the separate countries, we will do a multilateral code of conduct for the mediation of disputes in the South China Sea, then China's natural advantages would have a better chance to play out. But it's very hard for them to do that in terms of their domestic politics, is it impossible for them to that? At some point in the future it could be possible, I don't see it right now.

Moderator

I have a lot of questions from the audience for you. [pause]

What is your assessment on South Korea's smart power?

Nye

I use the term smart power to refer to the fact that you need to combine both hard power and soft power. Sometimes after I wrote about soft power, people said oh he thinks all you have to do is be nice and you'll get what you want but unfortunately that's not the way the world is, but if you combine hard and soft power, you're likely to do better than if you just use hard power alone. So I've argued that a smart power strategy is one in which a country has hard and soft power reinforce each other. The Americans sometimes do it right and sometimes do it wrong. If you take the invasion of Iraq, the hard power, very quickly overthrew Saddam Hussein, but there was no soft power and the result was a mess. So that was what I would call not a smart power strategy. Smart power means the ability to combine the two. Let me give you an example from a small country, Singapore. Singapore is pretty good at smart power the following example. Singapore is never big enough militarily to defeat Malaysia or Indonesia or much less than China, but it does say if we have enough military capability that when somebody attacks it will be uncomfortable they call it being a 'poison shrimp', then it's less likely to be attacked. And at the same time we can be a hub of Asian relations if we can have people coming from other countries in the region to pass through the National University of Singapore, in other words if we can develop both soft power and enough hard power to be a poison shrimp, we can be a success. I think they have been. So I would argue that Singapore has a smart power strategy.

Moderator

I have a question on Japan. If Japan's Abenomics fails, and Japan's economic situation gets aggravated, would the balance of power and regional order in East Asia be changed? How would the U.S. and its alliances be affected?

Nye

I think that the Abenomics has had a setback in the last quarter as we've seen. We have to see what happens after the Japanese elections, whether this will continue and whether there'll be a rejuvenation of the efforts that Abe has been making. I don't know the answer. I think the US-

Japan alliance will remain strong regardless. I mean the U.S.-Japanese alliance was strong when Japanese growth was 0 to 1 percent and I think Americans were delighted with the Japanese economic recovery to 2 to 3 percent, I don't think even if Japan's growth rate retreats back to 1 percent or 0 percent, I don't think it will change the U.S.-Japan alliance because that's based on this general proposition that we need to shape the environment in the region to provide incentives for China. There is also the fact that keeping close relations with Japan will be important in terms of whatever happens in North Korea, nobody knows what's going to happen in North Korea, but having strong capabilities with Japan is going to be important at the same time that we have strong capabilities with South Korea.

Moderator

What is your view on the issue on trilateral cooperation?

Nye

I have said to my Japanese friends when I'm in Tokyo and I say to my Korean friends when I'm in Seoul 'get over history' you know, you have wasted the last several years disputing things that are 80 years old when you have just north of here, a real unpredictable threat and the idea that Japan and Korea are not cooperating in defense as closely as they should when they face something as dangerous as the Kim Jung-un regime. It doesn't make sense. Think ahead, not backwards.

Moderator

Another interesting question, this one is on China's relationship with Middle East. The question is this, can the conflictual situation in the Middle East somehow influence even prevent the rapid economic industrial growth that China needs so much for domestic political order, social stabilities and so on, I think this question reminds me of a comment from one of my colleagues abroad that U.S. presence in the Middle East and its proactive engagement has benefited China.

Nye

I think if there were real disaster in the Middle East, if there were a revolution in Saudi Arabia or if there were wars in which the Straits of Hormuz were closed or if there

a nuclear Iran which led to something with wider conflagration, this would be terrible for Chinese growth. It would be terrible for the world. The world economy would suffer badly, but it will certainly be a major setback for China. I think this is one of the incentives for China to be responsible in the Middle East and it's interesting if you look at the Chinese behavior in the Iran negotiations, the permanent countries plus one the Germans, the Chinese have been actually pretty supportive on that so they haven't been a spoiler on it. I think they realize that if they spoil they were to spoil the P5+1 arrangements, it would probably hurt them. so I will give them credit for being far-sighted on that.

Moderator

This deals with the issue of Chinese foreign policy, but from a different angle. We've been hearing and reading news reports about China and Russia getting closer in the security realm and trying to develop more cooperative arrangements. The question is this, what do you think about the proposition that China will challenge U.S. roles in East Asia with support of Russia?

Nye

A lot of people talk about a Russian-Chinese alliance, and I don't see it myself. If you mean by an alliance something like the relations between China and Russia of the 1950's, there will be diplomatic coordination. Both Russia and China often have problems with the U.S. and it's often very convenient to coordinate the diplomatic action essentially at the cost of the U.S., but that's not the same as a real alliance. If you ask would the Chinese and the Russians have enough confidence in each other to have an alliance of the type that they had in the 1950's, I think the answer to that is no. Russia has a lot of empty real estate in Siberia and China has a lot of extra people and I think the Russians worry a little bit about what that would look like.

Moderator

So what would be the immediate goals or objectives that the two countries would have when they meet [and make] the gesture of getting closer in security?

Nye

You see this in the security council, the Chinese often gear their behavior on security council issues to the Russians, they let the Russians cast the vetoes and the Chinese sort of abstain behind them on a number of issues. There are a lot of times when China doesn't want to get out front, but it's convenient to align with the Russians but not being exactly the same, so that's an example what I call diplomatic coordination. That's not the same as a real alliance in which let's say the Russians will be willing to sell top flight military equipments to China or if you look at Russian doctrine, nuclear weapons that Russians insist on maintaining their short range nuclear missiles. Why? They're not going to use them in Europe.

Moderator

A lot of questions... let me uh... how many [minutes] do we have left? Are we almost near the end? She's the boss... [pause] The question is this, the United States and China has held strategic and economic dialogue annually since the year 2009, which reflects the uh... I'm translating Korean into English, that's the reason, I'm taking some time, to ask you this question, which explains, reflects the ah, the rise of China, what do you think the two countries have accomplished through those strategic and economic dialogue and what are the limitations of the talks thus far?

Nye

I think the strategic and economic dialogue is very useful, not that it has created great agreements but it has helped the two countries to orient their policies, for example there was a lot of discussion about China having an undervalued currency and the way that was affecting trade and monetary relations. There are not meetings back and forth that I think you could argue that the de-facto revaluation of the Renminbi had something to do with the persuasion that occurred in dialogue after dialogue. If you count both inflation and the gradual increase in the value of the Renminbi, that was discussed a lot in the strategic and economic dialogue, so that would be one example. Another example might be the agreement of Obama-Xi Jinping reached on climate it wasn't an earth shattering agreement, it ratified certain things that both countries were aiming to do anyway, but compare that to the bitterness of relations

between the U.S. and China after the Copenhagen meeting on climate in 2009, well... this is progress. So I think the S&D has been a useful exercise.

Moderator

This is a question on Korea, inter-Korea relationship. It is very broad but the topic is very hot here. What is your assessment about the likelihood of reunification?

Nye

If I knew the answer to that, I would have been a rich man. I would take certain bets. I had thought frankly, and this is to show how wrong I can be, I had thought that the regime in the north would not last as long as it has lasted. They seem to me to have a communist monarchy, a contradiction in terms, and to have some regime to last as well as it has, after it starved its own people, ah is a puzzle, so I would of predicted a collapse sooner, but I was wrong. I think I'm now more cautious about putting bets on this. I think personally, one day the Korean peninsula will be united, but I'm no longer, I used to say in a decade or so, I no longer put any numbers on it.

Moderator

What is your assessment on the preferences of China? Does it want to create a new order? Or is it thinking about strengthening its position, its role within the existing order?

Nye

I think more the second. I mean there are some people who say that China cannot rise peacefully, that it wants to create a hegemony, the book I cited at the beginning of my talk, "When China Rules the World," Martin Jock says that China is bound to want to reorder the world in its own image, I don't see much evidence of that right now. I mean, if you look at the benefit China gets from the World Trade Organization, that it gets from the IMF, the UN and so forth, it's not about to overthrow these, I think it would like to have its own order in East Asia, I think it would like to have control of the seas, the South China Sea and the East China Sea, I think it would like to dominate the region, I don't think though that it has an aspiration to overthrow the global institutions or to challenge the United States globally. I think it wants to have its own sphere of

influence regionally. That can be the cause of some friction, but it doesn't have to be unmatchable.

Moderator

What would be U.S. policy added to that kind of...

Nye

I think the U.S. policy has been this rebalancing to Asia, in other words, the U.S. is going to increase its capacity to be a reliable ally, the U.S. and Japan are working on new defense guidelines, the U.S. is going to have 60% of its naval resources in the Pacific by 2020, there's been an announcement of having Marines that'll rotate through Australia, these are on the military side, but also the Trans-Pacific Partnership trade agreement indicates a desire to increase American economic presence and I think again, the argument is not to isolate China, we don't want to do that, but the argument is to have a greater American presence. And that means that if China tries to bully neighbors like it did with the Philippines, or Vietnam, those countries may have more options, if they see that the Americans are present, than if they feel they're left alone with China.

Moderator

The last question is about North Korean nuclear crisis, the question is, how to resolve that crisis, if possible.

Nye

I should ask you that, I think we have to continue to try and contain it. I don't think we want to accept that this is a permanent fact of life. But we have to realize that it's taking longer than we expected, and uh, speaking personally, I would be willing to talk to the North Koreans but I wouldn't believe what they told me. Uh you know we had in 2012, the Obama administration had the so-called Leap Year Agreement, and it took Kim Jong-un what? about three weeks to violate it. And uh, so the problem is that, we want to keep the neighboring countries, the other five of the six parties working to try to contain this, but we shouldn't essentially believe the kinds of things the North Koreans tell us, because they have violated their word so often in the past, which means that we want to keep a continual effort to contain this from getting out of control, but

not have illusions that we can suddenly solve this, in other words to sign an agreement, we've done that and we've seen the results.

Moderator

I met Professor Nye for the first time in my life when I was a junior in college, President Park talked about Professor Nye being a rockstar in the academic community now. Well in my memory he was a rockstar 40 years ago and continues to be, and when he talked about the absolute decline of nation-states and how that cannot be uh, analyzed in parallel with the life cycle of human beings, he made a comment that he is in decline, that is not true, he is the great mind that I met as a student, in my college years, and I thank you very much for joining us today, to share your wisdom, I'm sure all of us, some of us might have different ideas, but I'm sure that all of us enjoyed your lecture, your talk, your answer to questions, thank you very much Professor Nye.

Nye

Thank you very much and here's to the rise of South Korea. ■