

Summary

Brief Remark
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One-on-one Discussion
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Executive Summary

Many observers believe the world is now in 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. Prominent scholars foresee a “Chinese century” and opinion polls reveal a strong belief that China will “rule the world”. There’s a fair amount of opinion that would say that the American century is over.

Professor Joseph Nye makes the argument that the American century is not over and that in 2041, the U.S. will still be the central country in terms of the world balance of power – not China. In terms of overall power, China is also not about to pass the U.S. Why this conversation matters is because if people think that one country is rising and another is in decline, history dictates that this can lead to policies that are dangerous and can be a prelude to conflict. Just as the rise in power of Athens sparked fear in Sparta and caused the Peloponnesian War, American fear of China’s rise could create the types of uncertainty that would lead to a conflict that may disrupt this century.

It is difficult to define what “decline” means in terms of countries. When Britain lost its North American colonies, there was a general sense that this was the end of Britain’s glory. Yet this occurred on the very eve of Britain’s greatest century, which was produced by the industrial revolution. In the U.S., statesmen such as Nixon and Kissinger in 1970 believed that the U.S. was in decline then. Yet this sense of decline may be distorted: while the U.S. share of world GDP was

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25% in 1970, far below the 50% mark the U.S. had reached in 1945 (as the result of the devastation of WWII elsewhere), that ratio was already about 25% in 1900 and had remained so in 2000. What was abnormal was this very high level after 1945. The moral of the story is to be very careful about projecting in a linear fashion the trends that we see in global politics. There was a widespread feeling in 1960 that the U.S. was falling behind and was in decline, yet by the end of the century there was no more Soviet Union. In the 1980s, polls again showed a majority of Americans thought that their country was in decline, in response to Japan’s extraordinary success. Today, the same pattern emerges with respect to what Americans think of China. History has shown that while attitudes measured by public opinion polls tell something about people’s mentalities, they do not usually reflect the geopolitical reality.

There is a difference between absolute and relative decline. Absolute decline happens to a country which suffers from internal disabilities and therefore is overtaken by others. Relative decline is when a country is doing fine but others are doing even better. Some believe American institutions are in decay and resemble those of Ancient Rome before its downfall. There are very powerful trends in the U.S. however that are very different from the “Roman” scenario of absolute decline. In terms of demography, the U.S. is the third largest country in the world in population and according to UN demographers will remain so in 2050, the only major developed country to keep its ranking and it should continue to enjoy considerable strength. Another favorable trend is energy: because of the shale revolution, America is likely to be self-

sufficient in energy in terms of imports in the 2020s. The U.S. also remains the leader in research and development, including some of the technologies which will be most important in this century. This is bolstered by the role of American universities, which are far ahead of competition, and the U.S. entrepreneurial culture that harvests ideas from universities and derives economic output from them faster than anywhere else in the world.

Turning to the concept of relative decline, IMF projection is the American share of world production will decline to 18% over the next decade. This represents the “rise of the rest”: America is not losing as such but it means that other countries are achieving more, which has been partly a result of American policy. One the key goals of American policy after WWII was to create an international system and economy in which Europe, Japan, and others prospered. And in the 1990s the U.S. helped sponsor the inclusion of China in the World Trade Organization. The underlying assumption was that broader growth internationally was good for the U.S. and for the rest of the world.

Whether China can pass the U.S. as a result of the “rise of the rest” or not does mean that there will be more actors in the system. The real danger may not be the rise of another single country like China, it may be entropy – leading to an inability to collect actions together and get things done. The solution is to create institutions, networks and alliances. That’s an area where the Americans have been relatively successful over the years: 60 countries are either allied or closely associated with the United States, whereas China has very few partners that fall in such a category.

This brings us to the central question about whether China will surpass the U.S. in overall power. There are three different aspects of power. Power is the ability to affect others to get a desired outcome, which can be achieved by coercion, by payment, and by attraction. The first two are expressions of “hard power” (economic and military power), while the third one is soft power. In terms of economic power, most analysts have focused on how the overall size of the Chinese economy measured in purchasing power parity (PPP) was larger than the U.S. this year. PPP however is not a useful instrument when judging power, because for strategic assets and resources such

as oil, transactions occur at the exchange rate, not in relation to domestic purchasing power. And at the exchange rate the U.S. remains ahead of China. Given current growth, some people say China will surpass the U.S. at exchange rates by 2020, but they overlook research that shows countries which have experienced high rates of economic growth eventually return to more “normal” average growth rates, a phenomenon economists call regression to the mean. It is likely that there will be a reduction in the Chinese rate of growth but the main point is that the 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, which gives a better measure of the sophistication of an economy. In per capita income, the U.S. is about four times larger than China and will not be passed for decades to come, even at current Chinese growth rates. Despite its impressive ranking as the world’s largest trading country, China mostly imports components and exports assembled products: the value added China gets to keep for its GDP is only a few percent. Similarly, people will often point out that China has enormous leverage over the U.S. because of its trillions dollars of reserves. China is so dependent upon exports and opening to the American market however that dumping dollars on world markets would amount to self-destructive behavior. Another example is the question of the Yuan becoming a reserve currency. There are reports of more trade being cleared in Chinese currency, but about 83% is cleared in dollars. The shift cannot occur without deep and reliable capital markets in China, which are not controlled by a political party for political reasons. Without rule of law, there cannot be the confidence needed for a reserve currency.

In terms of military power, American military budgets are still about 4 times larger than China’s – and the advantage probably extends to 10 to 1 when taking into accumulated capital stock into account. It is true that China is improving its military capabilities rapidly, but this is more likely to be a challenge to the U.S. in the seas around China than at a global level.

Finally, the third dimension of power, soft power, is also taken very seriously in Beijing. Combining increased soft power with hard power is a smart strategy, but the

Chinese are having difficulties implementing it. Recent polls show China does not do very well with its neighbors in Asia and with Europe; it does a little better in Africa and to some extent in Latin America. There are two limits to Chinese soft power, the first is the Communist Party's unwillingness to allow the talents of Chinese civil society to express themselves. Soft power doesn't come primarily from government broadcasting and propaganda, it comes from civil society (universities, film industries, etc.) which flourishes best when the government leaves it alone. The second limit is China's nationalism and territorial disputes with its neighbors, which makes it very difficult to attract these countries.

In summary, even when China has a larger economy overall than the United States, measured at exchange rates, China will not be equal in economic power, military power or soft power to the United States. Lee Kwan Yew 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."

The behavior of China is not an existential threat to the United States. China does want some revisions in the international system, particularly in the regional context, but not necessarily globally. China benefits from a system of large global organizations. There is a regional balance of power in Asia and the fact that countries like Japan, Australia, Vietnam, do not want to be ruled by China and would like to have an American alliance. In that sense, the problem is not to contain China but to integrate it into the international system and encourage China to become a responsible stakeholder. This means having an active American presence in East Asia to encourage responsible Chinese behavior.

The Obama policy of rebalancing toward Asia is thus a wise policy. 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. There are areas of cooperation for the U.S. and China that can bring about a positive sum game, such as monetary stability, climate change and so forth. 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. If the analysis that China is not about to pass the U.S. is correct, it means there's more time to manage the relationship and less reason to succumb to fear. The American century is not over, there is room for cooperation with China and we can be more optimistic about what we'll see in the 21st century. ■