

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. ■