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# TESTIMONY

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## China and Globalization

WILLIAM H. OVERHOLT

CT-244

May 2005

Testimony presented to the U.S.-China Economic and Security Review  
Commission on May 19, 2005

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**Statement of William H. Overholt<sup>1</sup>**  
**Asia Policy Chair**  
**Director, Center for Asia Pacific Policy**  
**The RAND Corporation**

**Before the U.S.-China Economic and Security Review Commission**

**May 19, 2005**

**Summary**

China has transformed itself from the world's greatest opponent of globalization, and greatest disrupter of the global institutions we created, into a committed member of those institutions and advocate of globalization. It is now a far more open economy than Japan and it is globalizing its institutions to a degree not seen in a big country since Meiji Japan. Adoption of the rule of law, of commitment to competition, of widespread use of English, of foreign education, and of many foreign laws and institutions are not just updating Chinese institutions but transforming Chinese civilization.

All of China's economic successes are associated with liberalization and globalization, and each aspect of globalization has brought China further successes. Never in world history have so many workers improved their standards of living so rapidly. Thus popular support for globalization is greater than in Japan, where postwar recovery occurred in a highly managed economy, or with the former Soviet Union, where shock therapy traumatized society. In consequence, China has effectively become an ally of U.S. and Southeast Asian promotion of freer trade and investment than is acceptable to Japan, India and Brazil.

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Nonetheless, rapid Chinese globalization has required stressful adjustments. State enterprise employment has declined by 44 million. China has lost 25 million manufacturing jobs. 125 car companies are expected to consolidate rapidly into 3 to 6.

China's globalization successes are profoundly influencing its neighbors. India has learned from China the advantages of a more open economy. Asians schooled in antipathy to foreign investment and Latin Americans with protectionist traditions are going to have to be more open to foreign investment and less dependent on loans in order to compete with China. This will transform third world strategies of development and create broader global opportunities for our companies.

Contrary to early fears, China's rise has stimulated neighbors' trade and foreign investment rather than depriving them. Indeed China's recent growth spurt revived Japan's economy and saved key neighbors from recession, possibly averting a dangerous global downturn.

Chinese growth has brought American companies new markets. The flow of profits from China to the U.S. is as disproportionate as the flow of goods. Inexpensive products have substantially improved the living standards of poorer Americans. Inexpensive Chinese goods and Chinese financing of our deficit have kept U.S. inflation and interest rates down and prolonged our economic booms. At the same time, it has caused trade deficits and social adjustments. Chinese misappropriation of intellectual property creates losses for many of our companies. A manic construction and transportation boom has raised global raw materials prices, to the great benefit of producers and a great cost to consumers.

China's success is one of the most important developments of modern history, but projecting from current growth to Chinese global dominance or threats to our way of life is just wrong. Unlike the old Soviet Union, reformist China does not seek to alter any other country's way of life. Its economy faces world history's most severe combination of banking, urbanization and employment challenges, and by 2020 a demographic squeeze that will have few workers supporting many dependents. The best outcome for us would be a China that is eventually like Japan, prosperous, winning in some sectors, losing in others. Signs that China is making rapid progress in that direction should be welcomed, not feared.

## **China and Globalization**

Before reform, China was the world's most important opponent of globalization. It had an autarkic economy. It opposed the global economic order. It opposed the global political order and the major global institutions such as the IMF and the World Bank. It believed that global disorder was a good thing, and under Mao Zedong it actively promoted disorder throughout the world, including promotion of insurgencies in most of China's neighbors, in much of Africa and Latin America, and even in our universities.

Accompanying foreign policy disaffection was domestic cultural despair on a scale the world has seldom witnessed. In the Cultural Revolution, 1966-1976, China's students and others, under the guidance of Mao Zedong's peasant chiliism, humiliated a majority of senior government and party leaders, attacked the country's major educational, social and political institutions, destroyed much of China's cultural heritage, and in general tried to smash the country's establishment.

For two centuries Chinese had tried a range of ways – socialism, capitalism, empire, republic, warlords, religious fundamentalism, and others. All failed. Alienation was so severe that, along with students, much of the country accepted that the world economic and political order, and the Chinese economic and political order, were so stacked against them that any path to success had to start with destruction of the existing order.

The Cultural Revolution was actually just one small episode in the problems that Chinese impoverishment and political division created for the world and specifically for us. Had China been prosperous and unified throughout the twentieth century, we would have had European War II rather than World War II and World War I would have been quite different. China would have been able to deter or defeat Japanese aggression. The cost of those conflicts to the U.S. would have been radically smaller because Pearl Harbor and much else would not have happened. We and the world, not to speak of a billion Chinese citizens, have paid a horrible price, over more than a century, for China's weakness. The world needs a healthy China.

Because of China's successful globalization we no longer have such problems. China is no longer a vacuum that sucks the world's great powers into gigantic conflicts. China no

longer sponsors insurgencies in Southeast Asia and Africa and Latin America. China no longer seeks to undermine the global financial institutions. We obtain benefits from a China that supports stable capitalist democracy in Thailand and the Philippines; that joins the IMF, World Bank, and WTO; and that counsels its neighbors about the benefits of political stability, free trade, and free investment.

From the beginning of the Cold War, it has been the central tenet of U.S. foreign policy that, if we could engage as much of the world as possible in successful economic growth, through domestic reform and what came later to be called globalization, we could stabilize Europe and Asia, win the Cold War, and create a stable global order. Our military protected this process, but from the Marshall Plan to our aid missions in Asia and Africa, the core long-run strategy of our country has been to engage the world and stabilize it by enmeshing other countries in a web of institutions and successful economic practices that constitute the kind of world we want.

This strategy has proved to be one of the most successful geopolitical strategies in human history, so much so that it has entangled our former enemies as well as our allies in the web we wove. Throughout, it has stimulated many controversies, and occasional waves of fear in this country. Key industries, including especially textiles and shoes, have successively opposed liberal trade with Japan, South Korea, Taiwan, Southeast Asia, China and Latin America. We had a wave of panic over whether Japan was going to take over all manufacturing and buy all our most important assets; after all, if they could triumph in steel, cars, and televisions, and buy Rockefeller Center, wasn't everything in our economy at risk? Elsewhere, weren't we sponsoring horrible dictatorships by encouraging the development of Taiwan and South Korea? Each time, our fears have proved excessive, and each time our strategy triumphed. The results have been good for our security, good for our prosperity, good for political liberalization overseas, and good for the people of our trading partners. Our concerns about China are the same.

### **China's globalization**

What we never expected from our strategy was that it would entice our former adversaries, including China, into our web of economic institutions and our commitment to geopolitical stability.

Although joining late, China has joined the globalized system much more enthusiastically than Japan. China's economy is much more open than Japan. China's trade in 2004 was equal to 70% of its GDP, Japan's to 24%. China received \$60.6 billion of foreign direct investment in 2004, while Japan, with an economy several times larger and in a phase of restructuring that should have attracted disproportionate foreign investment, received only \$20.1 billion.

China's globalization is not confined to opening the economy but more importantly to globalization of institutions. Here the development strategy of contemporary China bears a striking resemblance to that of early Meiji (mid-nineteenth century) Japan, when the Japanese government was sending missions around the world to choose for emulation the best foreign navy (Britain), the best foreign education system (Germany), and so forth. In the intervening century and a half, Japanese practice has become more inward-looking, while China has evolved from Qing defensiveness and Maoist peasant xenophobia to an assimilative cosmopolitanism.

Today China is the country that sends missions throughout the world seeking best practice. It adapts not just foreign technology and foreign corporate management techniques but also a wide variety of foreign institutions and practices: international accounting standards; British, U.S. and Hong Kong securities laws; French military acquisition systems; a central bank structure modeled on the U.S. Federal Reserve Bank; Taiwan-style regulations for foreign portfolio investment; an economic development strategy adapted from South Korea, Singapore and Taiwan; and many others. Among the most important of these changes are the decision to adopt the Western concept of rule of law; adoption of competition as a centrally important economic practice; and adoption of English language as virtually a second language for the educated Chinese population. Today I can lecture in Peking University and interview senior officials in Beijing and Shanghai without a translator. Perhaps most importantly, China has sent its elite youth abroad for education in an exercise of internationalism comparable to the Romans turning over their children to the Greeks.

Of course, such changes occur gradually; you can't instantly introduce Western accounting or Western law in a country that starts with no professional accountants or lawyers. But the changes are startlingly fast compared with what other countries do. More importantly, these are not technical adaptations in the manner of the old dynastic



efforts to pursue “Western technology, Chinese culture.” These are transformative processes that in cases like rule of law and promotion of competition repudiate core aspects of traditional Chinese civilization that go back for millennia.

China is also experiencing globalization of tastes. The exposure of the Chinese population to foreign brands has been incorporating them into global culture. To take one example, I spent many months studying the Chinese car industry. One of the questions we were asked was whether China might develop indigenous car models in a closed-off market like that of South Korea in the 1970s and 1980s. What we discovered was that the Chinese people have been so much more exposed to global culture than South Koreans of a generation ago that no car could succeed in China unless it incorporated global designs and prestigious foreign technologies. Ten to thirty years ago, when South Korea was at a phase of car industry development more comparable to China today, one virtually never saw a European or American car on the road, and they are still very rare today. But in China the roads are packed with Volkswagens and Buicks.

China has come to believe in globalization more than most third world countries and many first world countries. China’s successes have all coincided with “reform and opening,” that is, with globalization. In contrast, Japan’s and South Korea’s successes occurred in an era when, although they were globalizing, they employed far stricter controls on trade, foreign investment, and domestic economic activity than today’s China.

Globalization has required extremely painful adjustments by China. Employment in the state enterprises has declined from 110 million at the end of 1995 to 66 million in March 2005. Those who think there has been a simple transfer of U.S. manufacturing jobs to China will be surprised to know that manufacturing jobs in China have declined from over 54 million in 1994 to under 30 million today. Even these striking numbers understate the adjustments China has had to accept due to greater competition and lately from WTO membership. For instance, while employment in the car industry has remained relatively constant, the number of car manufacturers is expected to decline from 125 at the peak to somewhere between three and six. Meanwhile, foreign joint ventures have come to dominate much of the market.

It is hard to overstate the social adjustment Chinese are experiencing. But because China has been willing to accept such adjustments, no large country in human history has ever experienced such rapid improvements in living standards and working conditions. When reform began, workers in Shanghai all wore the same clothes, looked tired and listless, and seldom owned basic appliances like televisions or even watches. In the countryside malnutrition was widespread. Today Shanghai workers wear colorful clothes and look confident and energetic. Today the average Chinese family owns slightly more than one television. Malnutrition has vanished. As a result, Chinese overwhelmingly support further globalization.

### **China's globalization and other countries**

China's globalization has of course strongly influenced other countries too. The most important impact has been on India's economic policy and performance. Since independence India's economy had been hobbled by extremely protectionist trade policies, an antagonistic stance toward foreign direct investment, and a remarkable network of domestic socialist economic controls called the license raj, combined with strong foreign economic and political ties to the old Soviet Union. A 1991 foreign exchange squeeze and neighboring China's success shocked India and also showed that abandoning the old hostility to globalization could lead to prosperity. While India started later than China and moved more slowly, India's economic growth rates have doubled. The number of people in absolute poverty has declined sharply. Exports have boomed and foreign exchange reserves are ample for the first time in modern history. Visit India today, as I did last month, and you find the kind of hope and confidence and energy that once seemed confined to East Asia.

As happened earlier with China, India's newfound economic dynamism has shifted the balance of leaders' priorities from conflictful geopolitical goals to mutual economic interests. India's relations with its neighbors, sometimes including even Pakistan, and most notably with both China and ourselves, are much better than previously. Indeed, Indian-Chinese relations are better than at any time since the conflicts of the 1960s, and India's business community has shifted from terror about competition with China to confidence in India's competitive advantages and even some celebration of India's recent trade surplus with China.

China's influence on India's economic policies is just one example of a much wider phenomenon that is probably just beginning. Until recently, most of the third world plus Japan has taken a relatively hostile attitude toward foreign direct investment. Difficult licensing requirements, high taxes, unfair judicial treatment and an negative opinion climate have faced direct investors from Japan and South Korea to the Philippines and Thailand to India, not to mention most of Latin America. Instead of accepting foreign ownership, countries typically relied on foreign loans (South Korea, Southeast Asia, Latin America) or domestic loans (Japan), frequently creating an excessive burden of debt. Thailand imposed very high taxes and then reduced them for selected foreign investors; Indian groups attacked Kentucky Fried Chicken with distorted hygiene allegations. Now such tactics are waning.

The success of China at balancing debt with equity, building upon the previous successes of Hong Kong, Taiwan and Singapore, is gradually changing the way much of the world manages economic development. This Chinese influence is going to be transformative, particularly in Asia. The old pattern has been to avoid dependence on foreign investment by taking domestic and foreign bank loans. Governments then controlled the development of industry by channeling the bank loans. This made companies and countries overly dependent on banks, leading to periodic financial crises. It gave governments too much control over industries, encouraging mismanagement and corruption. It gave unfair advantages to large, politically favored companies over smaller companies and foreign companies. Importantly for us, it limited the opportunities for our own companies. Now competition with China will force most companies to open themselves to foreign investment. American companies will benefit not just in China but throughout the world.

At the beginning of this decade, there were widespread fears that China's success would suck the trade and investment away from its Asian neighbors, impoverishing them. In the event, the opposite has happened. Wherever rules have been changed to welcome foreign direct investment, as in India, South Korea, and Japan, such investment has boomed. China has taught others to attract foreign investment, and in response the total pool of foreign investment has greatly expanded.

Amid the global slowdown following the tech bust, countries like South Korea and the Philippines found themselves saved from recession by Chinese demand. Most

importantly, Chinese demand provided the stimulus that lifted Japan out of recession. It is difficult to overstate the risk the world economy faced from the Japanese situation, where mountainous debt created the risk of a domino-like collapse inside Japan and subsequent rippling collapses around the world. That risk seems to have passed, helped by a critical margin of stimulus from China. Few books are written about global depressions that never happened, but it is quite possible that China's globalization saved us from beginning the new century with a drastic global economic squeeze.

Many other peoples have benefited from Chinese demand that rose just as the world economy was slowing. Raw materials producers had become inured to terms of trade that deteriorated inexorably year after year. Suddenly our ally Australia found that its terms of trade have improved to the best in its entire history, largely because of Chinese demand. Many of the world's poorest countries, including Laos, Papua New Guinea, and much of Africa, benefited just when they needed it most. No aid programs, no IMF gold sales could have come close to providing the improved livelihoods that resulted from increasing, sustained demand for their products.

In short, the most important results of China's rise are the same as the results for the world of America's rise or of the recoveries of Japan and Europe: you are always better off with a rich neighbor than with a denizen of the slums.

### **Benefits and costs for the U.S.**

China's globalization has had numerous impacts on the U.S. Most obviously, China has become a vast market for U.S. goods. Arguments that this is a mythic "China Dream" have proved false. Coca Cola has long since surpassed the fabled goal of selling a billion Cokes. General Motors, once ridiculed by the China Dream theory, sells many Buicks in China, and, despite a current cyclical pause, profits from China have been a critical margin for GM during a difficult time. We gain from billions of dollars of profits remitted back to our country and from the improved health of our most successful companies as they compete against other foreign companies.

Lower prices for basic goods have contributed significantly to American standards of living, particularly for our less prosperous citizens. While we do not yet have definitive studies, indications are that lower-income Americans achieve improvements in their

standards of living of perhaps 5% to 10% as a result of being able to buy lower-priced imports from China. That impact is undoubtedly expanded by the fact that competition from China drives other countries to produce less expensive goods for our consumption.

Inexpensive Chinese goods have kept down our inflation rates and enabled us to prolong the upswings of our business cycles because the Fed doesn't have to raise interest rates so quickly in order to slow inflation. Similarly, Chinese purchases of U.S. Treasury bonds have helped to finance our budget deficits. Without those Chinese purchases we would either have to raise interest rates, slowing our growth, or we would have to run comparable trade deficits with other countries so that they could buy our bonds.

We are just beginning to see another layer of benefits. The Chinese are beginning to invest here. Haier is now manufacturing refrigerators in this country. When China's Lenovo bought IBM's personal computer business, it saved jobs in a moribund division, freed IBM to move up into higher-tech markets, and helped finance that IBM move up. So far, this trend is small, but it will grow quickly. China's goal for this year is to spend \$30-40 billion buying resource and distribution companies.

We also benefit indirectly from China's boost to foreign economies like Japan and Australia. Having a prosperous partner is invaluable to the U.S. economy. We spent the 1980s fretting about Japan taking over the world, but we spent the 1990s worrying that Japan wasn't doing its share to boost global growth. Those who worry about China's success would have far more to worry about if China's growth slowed drastically.

### **Adjustment problems**

China's globalization and growth also cause stresses for us. Some of these are politically eternal but economically and strategically tired. As countries get rich, the manufacture of textiles, and shoes, furniture and basic consumer electronics mostly migrates elsewhere. The manufacture of socks migrated from here to Japan, from Japan to South Korea and Taiwan, and thence to Southeast Asia and now China. That adjustment will continue. It has been gradual over many decades. We have had ten years to get ready for the current round of textile adjustments. We knew what was coming and we agreed to it, in return for China so stressful that they are virtually beyond Americans' imagination. Our own adjustments are smaller than those of virtually any other country.

These adjustments are smaller than we tend to believe, because China gets blamed for much that it does not cause. Virtually all of our job loss has been caused by productivity improvements. In fact, productivity gains have been sufficiently large that we should have experienced more job losses than we have. It is conceivable that our job losses have been smaller than they “should” have been because China has helped us adapt. We don’t know, because no lobby has been interested in paying for the research to find out how many jobs have been saved by partial moves to China decreasing the costs of endangered companies. And China is, of course, just part of a global readjustment caused by China, India, and the former Soviet Union joining our economic system.

A more serious policy problem is hyper-competition created by cheap financing in China. The irrationalities of the Chinese financial system mean that in key sectors like steel China builds too many factories, and props up too many moribund companies, causing massive overcapacity. In recent years Chinese financial vagaries have led to excessive construction and huge demand for steel, aluminum, cement and others. For a while this has buoyed the global steel industry, including ours. But it has also led to construction of so many steel factories in China that soon China will have half of all world capacity. That means overproduction and eventually a steel price bust.

This cycle creates problems for our industry, just as our Internet mania and tech bubble created problems for much of the world. It is fair for us to complain about such problems. It is fair to pressure the Chinese to reform their financial practices. It may be fair in some cases to view Chinese bank lending practices as constituting an inappropriate subsidy. The tone of our complaints and the substance of our policies needs, however, to reflect three facts. First, the Chinese are trying to reform their banks and put them on a market basis. Second, our financial vagaries cause them problems too. Third, the biggest price for their financial mismanagement will eventually be paid by them, because inappropriate lending eventually makes troubled banks much more troubled. China making steel today looks like Japan buying Rockefeller Center two decades ago; if you project their excesses indefinitely into the future, first the Japanese and now the Chinese look as if they are about to take over everything in the world. But when you look at their underlying finances, you see a black hole. The Japanese spent the 1990s in their black hole and are still trying to climb out. China will feel the pain of its recent spree for many years. Having said these things, some excesses may require a policy response by us.

Chinese theft of intellectual property has become a major issue. The IPR problems presented by China are similar to those presented by other developing countries. In the 1930s, Japan built cars that were half Ford parts and half GM parts, with DeSoto styling. In the early days of Japan's postwar takeoff, a high proportion of its electronics exports infringed Texas Instruments' patents. I, like numerous others, accumulated a library of knockoff books from Taiwan in the 1970s, and Taiwan still has the best knockoff watches. When I lived in Singapore in 1998, I could get knockoffs of most Hollywood movies at a six-story building within five minutes' walk of my office, and indeed well into the 1990s official U.S. government briefings credited Singapore for some 70% of the knockoff computer software in Asia – at a time when China was getting most of the blame. China's IPR practices today are not very different from those of India and Russia. But the scale and efficiency of China, and the extent of foreign direct investment in China, make the issue a larger one. Indeed, the IPR losses caused by Chinese practices are probably on a scale with those of other major emerging markets, like for instance American youth. It is appropriate for us to make very strong representations about IPR abuses. It is appropriate for us to implement policies that punish bad behavior and reward better behavior. It is also useful to maintain a certain historical perspective.

The other side of the benefits Australia, Africa, Latin America, and other resource providers (including part of our own economy) have received from Chinese demand is a rise in prices for consumers, and we are more consumer than producer of raw materials. For many key materials, the biggest part of recent price rises has been cyclical. The Chinese mania for steel, aluminum and cement has peaked. In the case of petroleum, the cumulative increase in demand caused by China, India, Russia, and other developing countries may soon push against long-run supply constraints. This may compel us to make new, potentially urgent decisions about conservation, the kind of energy we use and the degree to which we compete or collaborate with the other major users. This would have happened eventually even without the rise of China, but China is certainly accelerating the issue.

Finally, the rise of China raises questions about whether we face a major challenge to our role in the world or to our way of life. One part of this is easy. We do not face a challenge to our way of life. Unlike the Soviet Union, and unlike China under Mao

Zedong, reformist China does not seek to change the way we organize ourselves or the world, but rather to join the world system we have created.

Geopolitical competition raises more complicated issues. Like South Korea, as China grows it gets stronger. Its military becomes more modern. In one particular area, the Taiwan Straits, maintaining our dominance will become increasingly difficult. That is a serious and difficult and legitimate challenge for our military to cope with. But theories that China is going to take over the world suffer from the same flaws as theories two decades ago that Japan was going to take over the world. The Chinese military has to defend 11,000 miles of not-always-friendly borders, and its growing military is far from excessive for the tasks it faces. Economically, China is not going to manufacture everything in the world; no country can have a comparative advantage in everything.

In the medium term China faces daunting challenges. Its banks are the worst in the world that we know about. In each generation a population about the size of the United States will move from China's countryside to its cities. Each year 12-13 million new workers join the work force. The impact of productivity on employment in manufacturing is much more severe than in our country. All these people need jobs. For a considerable period China's high growth can be sustained, but only through heroic reform measures by China's leaders. If somehow China powers through these problems, by 2020 its aging population will have the worst ratio of workers to non-workers of any population in the world, including Japan's. That is to say, without some miraculous new policies the Chinese economy may well hit a wall in that period. In 2020, they will still be a very poor country by our standards. Even if their success continues until then, they will not be taking over the world.

The emergence of China as a principal advocate of globalization and stability creates a complex geopolitical situation for us. On issues of free trade and investment, and on a variety of economic issues like GMO crops, China is our principal ally. On North Korea, despite differences over tactics, we share the same goal and China is our only effective partner. On terrorism and crime, China is our principal Asian ally. We are now in a novel situation where Japan is our military ally and partial ideological soulmate, but China is effectively our ally on the important political and economic issues, with Japan either ineffectual or in opposition to us. This is a novel historical situation.



Where Chinese influence has increased greatly at our expense, other than the unique situation in the Taiwan Straits, it has been because we and our traditional allies created a vacuum, not because China has aggressively asserted power. But there have been important shifts, and we need to be very conscious of them. On the dangerous North Korean issue, we have been divided at home, and our allies, most notably South Korea, have disagreed with our tactics. We have demanded that China play the central role, and China was hesitant to accept the invitation. In Southeast Asia, we have traditionally earned loyal support by organizing our policies around a core value of economic growth through liberalization and globalization. Today we are perceived as having abandoned that priority in favor of a more military focus on the war on terror, while China is seen having abandoned its Maoist geopolitical priorities in favor of a priority for mutual economic development through multilateral liberalization. Within our economic policies we are seen as having abandoned multilateral liberalization in favor of highly politicized bilateral free trade agreements, while China has become the principal supporter of multilateralism. China carefully joined ASEAN on trade, rather than asserting its own vision. Without exception, Southeast Asian (and many other Asian) elites see the 2003 APEC summit as a watershed that marked the U.S. and Chinese reversal of roles. The result of these Korean and Southeast Asian developments is a sea change in Asian geopolitics, but we are the ones who made the changes, not China, and we still can take the initiative if we wish to do so.

We Americans must be very clear about the difference between success and failure. When our system of institutions and relationships pulls the unstable China of 1870 and the destructive China of 1970 into coherence, prosperity and support of the major global institutions that we have created, it is success for us, not failure. In fact, it is one of the great successes of history. When we have a prosperous economic partner, at the cost of historically minor adjustments, that is success for us, not failure. Of course, our successes to date provide no absolute assurance that China will always be friendly or supportive of our institutions. But if we welcome China's prosperity, we maximize the chances of an auspicious outcome. If we reject it, we ensure the worst outcome.

The best outcome for our relationship with a globalized China is that China becomes like Japan, a prosperous competitor with whom we have a mutually beneficial division of labor. Hopefully China will absorb useful political lessons from its Asian neighbors, and hopefully Japan and South Korea will learn the economic lessons of China's superior

openness to our investments. China's turn to globalization has been one of the greatest foreign policy triumphs of American history.

My first boss was Herman Kahn, who wrote a book called "The Emerging Japanese Superstate." Japanese experts constantly worried that, if their economy really succeeded, we would intervene to put them down. Herman Kahn invariably replied, "You don't understand Americans. We won't attack you. We'll take credit for everything you achieve." Herman Kahn was a great American strategist and a great American patriot.