

THE BROOKINGS INSTITUTION

ZERO-SUM FUTURE:
AMERICAN POWER IN AN AGE OF ANXIETY

Washington, D.C.
Tuesday, February 8, 2011

PARTICIPANTS:

Introduction and Moderator:

FIONA HILL
Senior Fellow and Director, Center on the
United States and Europe
The Brookings Institution

Panelists:

GIDEON RACHMAN
Chief Foreign Affairs Columnist, *Financial Times*
Author, *Zero-Sum Future: American Power in an
Age of Anxiety*

KEMAL DERVIŞ
Vice President and Director, Global Economy and
Development
The Brookings Institution

JUSTIN VAÏSSE
Senior Fellow and Director of Research, Center on the United States and
Europe
The Brookings Institution

* * * * *

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

P R O C E E D I N G S

MS. HILL: Ladies and gentlemen, can everybody hear okay at the back? We're just checking that the mic is working.

We want to welcome all of you here today. I'm Fiona Hill, the director of the Center on the United States and Europe. And we're delighted to be able to host Gideon Rachman, who is on the first part of his leg of a North American tour with his book. I'm sure and I'm hoping that you've all bought your copies outside. Unfortunately, no royalties come to Brookings, but we like to share in the reflected glory of newly minted authors. And we're delighted that Gideon could join us here today, because this is, in fact, his first book.

Many of you will have, of course, read Gideon's other almost daily works and his column in the FT. And this has obviously been a very much long-awaited publication. And as Gideon was termed as a historian, and I'm also trained, also, coincidentally, in the UK, as a historian. And as I was reading this book I thought that what Gideon was doing was channeling the great British historian, who's actually still alive and with us, Eric Hobsbawm.

Now, I'm not accusing Gideon of being a Marxist, because of course Eric Hobsbawm, for those of you in the audience who know him, is Britain's still die-hard remaining, very much committed Marxist historian. But he wrote a very famous trilogy of books, *The Age of Revolution*, *The Age of Capital*, and *The Age of Empire*, that took us on a breathless tour from 1789 to 1914. He also had a less-known book, *The Age of Extremes*, that was a quick history of 1914 to 1991.

And what Gideon has done here, has done also, an extraordinary, ambitious sweep of history, but from 1978 to 1991. We're going to hear from Gideon why he picked that date, which may not seem all that auspicious to most. But once Gideon gets into

this, you've had a chance to read the book, you will realize why.

Another reason I thought of Eric Hobsbawm is because Eric Hobsbawm was actually born in Alexandria, Egypt. And one of, of course, the main features of Gideon's book is talking about the rise of authoritarian powers and the challenges to democracy and one of the questions about whether in the future the United States will be able to deal with these developments. And of course, he probably hasn't envisage when you put that final period at the end of your book, that we'd be so quickly plummeting into a new age of revolution with the Middle East. And so we have quite an exciting backdrop for your book tour here. And I'm sure that you're going to get diverted into commentary on a number of issues.

So we're going to begin -- this is really a conversation with Gideon. And we're going to begin with a few comments from Gideon on the book, and then I'm going to turn over to two of my colleagues here from Brookings. Kemal Derviş, who most of you will know as our vice president for our program on Global Development, who has also had an extremely distinguished career in the UNDP, and also in the Turkish government and knows a few things about dealing with economic crises.

And on my right, Justin Vaïsse, who is our research director at the Center on the United States and Europe, and also a recently minted author with a very well-regarded book on the neoconservative movement in the United States, which has gained a lot of attention. And so Justin obviously has a thing or two to say about the role of American foreign policy in this period that we're dealing with.

So, Gideon. Thank you so much for joining us. We're delighted to see you. Obviously we wish you luck as you begin with your presentation here of the book and your tour of the U.S.

MR. RACHMAN: Thank you very much. Well, tour is slightly grand-well

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

putting it, but I'll be in New York tomorrow and then Chicago Thursday, and then that's it.

MS. HILL: You never know.

MR. RACHMAN: But I'm -- no, I'm delighted to start here at Brookings, particularly because actually some of the events and meetings that are recorded in the book were things that I did on the back of trips that I took with Brookings. Indeed, in Georgia and Ukraine, and travels I did with Phil Gordon, ex of this parish, who is now also at the State Department. So it kind of seems fitting that I'm now back here to report, so to speak.

The origins of the book were that I wanted to look at the geopolitical consequences of the economic crisis. It seemed to me that obviously in the immediate aftermath, the immediate panic afterwards, everyone was thinking about, first, of the banking system and then about the economic consequences. But it seemed pretty clear that there would also be quite profound political consequences. And that's really the -- what I go into in the book.

The main thrust, the main argument, I think, is that the economic crisis will have -- has reintroduced tensions between the world's major powers into the international system that had been glossed over for a long period by globalization. To try to explain how we get there, there's -- as Fiona indicated -- quite a lot of history in the book. At least the first sort of 60 percent or so is about the history of the world from 1978 to 2008. And then I try to explain, well, how did things change?

And I -- in Hobsbawm-like fashion, chop this period up into two. There's an age of transformation, which I describe between '78 and '91, which is when I think, essentially, the globalized capitalist world was created. What I mean by that is that pre-'78, you essentially have a relatively small group of advanced capitalist nations, the G-7 world plus Japan. And then in '78 a chain of events starts with the opening of China,

probably the most significant event. China opens and we don't fully realize the significance of the event at the time but clearly, it becomes an enormous player in the global economy.

And then you get Latin America, the fall of dictatorships right across the continent during that decade and opening up of the economies associated with that. You get the creation of the European single market in the mid-'80s in Europe. You get the recrudescence of confidence and free market capitalism in the U.S. and Britain under Thatcher and Regan. Then, most dramatically of all, the fall of the Berlin Wall in 1989 and the reunification of Europe and Eastern Europe joining the capitalist system.

And then in '91, you know -- we tend to think of '89 as the most dramatic year. But I think '91 sort of ranks with it because that is the year of the final collapse of the Soviet Union. It's also the year when India opens up and joins the globalization game. Indian reform starts at that point. So within a very brief period you have the creation of an entirely new kind of global economy, which I think has profound political implications - cause it's my believe that, really, from '78 to now, globalization has been the mega trend not just economically, but politically, because it's created a new way in which states relate to each other.

And so the next period -- or periodization, slightly arbitrary, but I call the '91 to 2008 period the age of optimism. What I mean by that is that this is a period when, for different reasons, or associated reason, all the world's major powers have reason to be reasonably content, optimistic, about the way the world is shaping up, the way things look for them. So that China recovers -- China's communist party recovers from the shock of Tiananmen Square, economic growth resumes at 9 to 10 percent a year. They can feel themselves getting richer, more powerful, it's a good period for China.

India, too, gets rid of its idea that they're condemned to some sort of

Hindu-rate of growth, which is a phrase that had dogged them before. There's a resurgence of Indian economic and political confidence. It's a period of confidence in the European Union. You get the more than doubling in size of the EU, the creation of the Euro.

But also, as you'll know better than me, this is America -- a great period of confidence in the United States. The U.S. has won the Cold War. 1991 is also the year of the first Gulf War, so you rediscover the utility of American military power. The Japanese challenge, which had perplexed Americans in the late '80 suddenly fades away, and America has this unipolar moment. And then, to top it all, there is the tech boom, as well. So there's a kind of resurgence of confidence in the American economy.

And I think that allows America to think about the rise of alternative powers -- for example, China -- in a more optimistic way than it might have done in a slightly more troubled period. So that the confidence in capitalism and the power of capitalism, which has been bolstered by victory in the Cold War, and the spread of democracy deeply influences the way the U.S. thinks about the rise of new countries like -- such as China and India.

And success of presidents, whether they're democrats or republicans, tend to believe that, in a sense, globalization is the West's Trojan horse in China. That, as Bush put it, when China joins the WTO, trade freely with China, and time is on our side. By which he meant, you know, they may look a bit kind of alien and threatening now, but once they globalize, once they plug in, you know all the arguments about open -
- how an open economy will lead to a more open, democratic system.

So that's how the world looks, for quite a while. And then, I think, things change with the economic crisis. They change because there's a loss of confidence in the efficacy of the kind of free market system that we've been preaching. There's also,

as you well know, a sort of growing sense that there's a power shift on the way from West to East and from within that, a growing sense of anxiety in the U.S. about the rise of China, which is -- recovers much faster than the West from economic shock.

And I think that, then, begins to introduce a set of new tensions into the international system. A lot of it is to do with this relationship between America and China, which I'll land on and come back to that in a bit. But I wouldn't want to give you an impression that this is a book solely about that, although I think that relationship is key to understanding the future of international relations.

I also look at other ways in which the post-2008 period I think political tensions as well as economic tensions have risen. In my own part of the world, in the European Union, we're really in quite intense crisis, which is partly an economic crisis: the sovereign debt crisis. But is also -- has affected the way that the countries relate to each other. So there's growing acrimony between the Germans, who are doing quite well and who are having to try to sort this out in their own way, but who are -- as far as countries that are being bailed out, like the Irish, the Greeks, perhaps the Portuguese who are felt to be throwing their weight around. And this has created tensions that I haven't seen for a while, as well as doubts of the future of the European Union.

So that Chancellor Merkel, for example, will actually say, you know, it is possible the European Union won't even survive this crisis. Now, partly she's doing that to sort of kind of force people on to find a solution. But there is a genuine deep anxiety about the EU. And I think it's significant because it's got a wider significance because the EU is a sort of globalization project, in microcosm. By which I mean, the logic behind European Unity was about -- the idea was, let's do lots of things together economically. Let's grow more prosperous together economically. And in doing that, that will have a positive political spin-off. That, I think, is the basic European idea from the beginning.

And that sort of logic has gone slightly into reverse in this new crisis. In fact, because the economy is in such crisis it is actually possibly temporary, but poisoning political relations between EU nations rather than improving them.

A second area that I look at is global governance, which I'm sure we can talk about in a little while. There's a very interesting development. I think that the creation of the G-20 was a very appropriate and long-overdue response to the crisis. So in that sense it has a positive effect. But I think that, as time goes on, it becomes clear that although there's a will among the major powers to cooperate and try to solve a whole range of problems, which clearly are global in nature, can't be solved by any one nation from global economic imbalances, to climate change, to nuclear proliferation, you name it. There's a lot of problems which seem to have global in front of them as a prefix.

There's a growing awareness that when they get down to talking about it, they get stuck. And so you see this in the Copenhagen climate talks, you see this in the inability to come to any accord on currency. And so that by the time of the last meeting of the G-20 in Seoul, Manmohan Singh says, you know, openly this is a deeply troubled organization. And the hopes that were invested in the G-20 begin to dissipate. And so we're left with this awkward situation where we recognize that one of the consequences of globalization, perhaps, is that there are these big, crosscutting global issues. But we don't have the political structures or perhaps the political will to solve them.

And then at the center of that is, I think, this increasingly tricky relationship between the U.S. and China. One of the reasons that I lighted on the idea of the zero-sum world is it's a phrase that actually both Chinese and American leaders use quite a lot, but largely to deny that it's happening.

So, when Hu Jintao shortly before he came here said -- he warned against people with zero-sum Cold War thinking. Which made me slightly nervous since

my book was about to come out. And then -- but in a sense, he was simply echoing Obama, who 18 months before when he had been about to go to China, said -- I had the quote written down. He said: "power is not a zero-sum game, and one nation need not fear the rise of another -- the success of another."

Now, that is still the official line, of course. And I totally understand why that has to be said in public. But I do think that in reality, it's a troubled relationship in economic and political -- troubled and increasingly rivalrous relationship economically, politically, and viewed from both Washington and Beijing. Economically because the U.S. -- the debate in the U.S. has shifted and, of course, there are still arguments about the costs and benefits of this relationship with China. But it seems to me that increasingly, you have quite respectable mainstream economists, people like Paul Krugman, Fred Bergsten say actually, you know, we're losing jobs because of Chinese currency policy coming out remarkably in favor of tariffs, which were a very unrespectable idea until quite recently.

But I think that equally there are tensions coming from the Chinese side. There are complaints about quantitative easing in America, the printing of money, and so on. So, on both sides there's a sense that, you know, this is an incredibly important economic relationship but one that is dysfunctional in some ways.

Then, I think, politically it's probably the biggest story as well. I think that the U.S., in a period of confidence, in an age of optimism, is more relaxed about the rise of China. Now, there's the sense that actually you look at the projections -- of the economists, for example, ran a projection saying that the Chinese economy will be larger than that of the U.S. by 2019. That's not very far away.

And suddenly you think, my goodness. What are the implications of that? Is Obama right when he says we need not fear the success of another nation? Because

again, the assumptions embedded in the previous era were that economic change would bring with it political change, which would make China more congenial to us, the West, to the U.S. But it seems to me entirely conceivable that by 2019 China will still be a one-party state, and the U.S. is troubled by very high budget deficits. You can see the logic and the problems building up.

And as a result, I think you see over the past year a growth in tensions politically, whether it's in the diplomatic arena, the quite striking confrontation at Copenhagen over climate change, problems they have at the U.N. over a range of issues, or now the increasingly vocal complaints or discussion by the American military over what exactly is happening with the Chinese military buildup. And I think also there's a shift in attitude in Beijing. You know, I go there every now and then. But it's not just me who has this impression that they have drawn certain conclusions from the crisis. Perhaps they've over interpreted it, but they think that, to put it bluntly, the U.S. is on the slide, that this is perhaps now the time to be a bit more assertive. And you can see that in a range of ways and, for example, territorial disputes over the last year in the South China Sea and the way in which China has asserted core national interests and so on in new territorial areas.

Now, this is not a conflict that is out of control. But I do think it's a long-term trend, at least for a little while. And one doesn't want to talk beyond maybe 5, 10 years. Who knows how the world is going to change? But I do think we're entering a more adversarial period in U.S.-Chinese relations because the two largest world's economies, the world's two largest political powers. That, inevitably, is going to affect the whole of international politics.

I'll stop there for now.

MS. HILL: Thank you so much, Gideon.

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

Kemal, what are your thoughts on Gideon's review of the horizon here?
How do you see things shaping up?

MR. DERVIŞ: Well, it's a real pleasure. I mean, first of all it's a real pleasure to have read the book and to be on this panel.

The book is, in a way, deceptively easy to read. You know, you can read it easily, quickly. But there is a huge amount of fact, there's a huge amount of analysis of history in it, of interpretation. And so I really think it's a great book.

Now, let me try to -- I mean, there are so many points. You know, the book is so rich in terms of the various parts of the world, the histories of particular areas. Let me pick on a few things.

Let me start by the account you give of the debate between Margaret Thatcher and Jacques Delors, which I think is a very interesting kind of snapshot of two views of the world in a way that, first, we're close, because they both were in favor of the common market, the single market in the EU. But of course, Margaret Thatcher's view of the single market was just that, a single market where people could trade and engage in private economic activity freely, whereas Jacques Delors' view, the kind of social Democrat European view, was while one should have a single market, one should have a globalization, it has to be accompanied by governance. And I think, in a way, that debate is still very central not just at the European level but at the global level.

We do have a global market, the way the Soviet Union collapsed, China opened, India joined, Latin American and all that created this huge global space. And I think we still have this huge debate going on on whether -- you know, how much in this global space can be left to markets and how much really needs some kind of governance mechanisms. And I think that there are very many points and many parts of the book that refer to that.

The second point I'd like to make is about multipolarity. And, you know, in terms of economic weights. I really believe and we've had some events, such as Francois Bourguignon lecture, you know, which very clearly shows that we are in a different type of structure now. Until about the mid-'70s, the per capita growth rates in the developing and in emerging markets was about the same as in the advanced countries. Ever since the gap has been rising in favor of the emerging and developing countries -- and now, if you look at the IMF projections, the latest for this decade, you have an amazing situation where the per capita growth rate in the emerging markets is about 2-1/2 times as rapid as in the advanced countries, with East Asia more than 3 times as rapid and the other emerging markets not quite the same. We've never had that in 200 years.

So for the first time we have what economists call convergence. I mean, of course there are many countries still left out of it. There's still a huge amount of poverty. But the kind of convergence which the basic, you know, classical growth theory always thought should be there but one couldn't see in the data until about 30 years ago is really now taking place. And I think, you know, who knows what will happen in 30, 40 years? There may be all kinds of dramatic political events. And there's the whole climate issue which, you know, the book also refers to.

But I think at least for the next 10, 15 years the forces of convergence are very strong and we will have a world with economic weights much more multipolar with China, of course, very big, very important, the European Union still very important. I mean, the fact that it's not a real union, but the European economy as such does remain the first, in terms of size, the first economy in the world; the U.S.; I think India; it's still way behind in terms of per capita income and overall GDP, but the demography is very favorable. And, you know, there are all kinds of problems in India in efficiencies and so on. And despite

that, it's growing at 8 percent. So, you know, with a little more efficiency and a little more reform, I think India, you know, can probably grow at rates very close to China's.

So, we are going to enter this multipolar world, and that is really fundamentally changing the nature of the world economy and will have tremendous impact on politics, I believe.

Now, in terms of military power, as you say, you know, it's a different story. The U.S. is still, by far, the dominant military power, but the conflicts we see also show that it's not obvious what that military power really means in practice. I mean, you know, how do you translate that into real influence? I mean, it's there, no doubt about it and it gives the U.S. a clout which nobody else has and nobody else will have for quite a while. But, you know, I think one interesting question is what does it really mean in practice when the financial power, the economic power, the trade power has become so multipolar?

And in a sense, it is worrisome. I mean, there can be a worrisome aspect to it. And there can be another aspect, which, you know, says the world is balancing, there are less gaps. And all this can evolve in a cooperative way. And I think that's the big question asked in the book. In the last chapter, I think after painting a rather worrisome picture you kind of come back a little bit and say, well, you know, we can make it work kind of thing.

History is, you know -- when you look back, I mean, one moment in history which I kind of think about and -- and you don't really mention it in the book, I think -- is how the world went into World War I. You know, it was a pretty multipolar world then. Nobody actually wanted to go to war. You know, the German Kaiser was having hunting parties with the Russian Czar and things like that. And yet, by a series of miscalculation -- it's very different from World War II where you had a mad regime and,

you know, a totalitarian system not only in Germany, but also in the Soviet Union. But World War I where, you know -- was a system where most countries felt rather close to one another in terms of the -- at least the European and the colonial powers. And yet, you know, it went into this disastrous World War I without really trying, without really wanting it to. So I think it reminds one that multipolarity can be very dangerous. Nobody is really in charge and miscalculations can lead to tremendous mistakes and tremendous disaster. So, in that sense, I agree with the message of the book that, you know, there is that element of danger and we have some historical precedent for it.

Now, one or two points where perhaps -- I mean, I fundamentally agree with most of the ways things are presented, so it's always hard for a commentator because you -- but I think on the slow growth issue, I would put it somewhat differently. I mean, you say that growth is slowing down, okay? But in a very kind of long, historical sense when you look at it, it's not clear that growth is actually slowing down. One could even argue that it might be accelerating.

Now, it is true in the U.S., for example, you know, post-crisis it's not quite as buoyant as it was in the 1990s. But projections for U.S. GDP growth per capita are of the order of 2 percent, which is roughly what U.S. per capita GDP growth has been for 200 years. Europe is slowing down more, but on the other hand Germany and parts of Europe -- Sweden, Netherlands, Denmark, Finland, and so on -- are actually doing quite well. So it's not very clear that even Germany is slowing down. I think the one where the slowing down is the most clear case is Japan. But I wouldn't necessarily say that there is very strong evidence that growth in the advanced countries is significantly slowing down.

In the German case it's kind of interesting. You know, we look at German growth of, let's say, 3 percent. And we have to remember because the population growth is 0, 3 percent is actually 3 percent per capita, which is, you know, in a

historical sense, quite remarkable. What is happening, however -- and coming back to the beginning -- is that the emerging in developing countries as a whole and particularly the emerging Asia are growing much, much faster. So that's what's really, I think, new. Not so much a very significant slowing down in the advanced countries. The crisis -- the world looked a little bit different a year ago. I think overall projections are now being revised upward, we'll see whether that comes true or not.

However, the fact is that the perception -- and particularly that's true particularly in the U.S., but also in Europe -- of the average citizen or the median citizen, I should say -- is much worse than the actual growth numbers. Okay? And the fact that the Chinese and the Indian and the Brazilians now are growing so much faster creates a political problem which doesn't necessarily reflect the average GDP growth numbers, or prospects. The other guys are, you know -- from an advanced country point of view -- are growing.

And what makes it much more difficult, I think, and challenging -- and this is not something that's stressed in the book -- is that the income distribution in many parts of the advanced world has become much more unequal and is becoming more unequal. So while the average GDP per capita in the U.S. may, you know, has grown quite fast, the median hasn't and the median wage and salary has not. And so it's a combination of the visible rise of the emerging markets with the challenges in terms of competition, relocation of manufacturing, and things like that. But on top of that comes, I think, a very significant concentration at the top of the income, which leaves the median household and the median citizen not better off. Okay? And therefore politically, the temptation to, if you like, blame that on foreign forces has become much stronger. And I think that is part of the zero-sum future type of dynamic that exists.

So the question that I would want to add to the book is, you know: are there things

that one can do about internal income distribution and the sharing of the growth of productivity that is different from what it has been over the last 30 years, okay? That would make the management of trade conflicts and of these whole rivalries easier. And I think there are things one can do, but it requires, you know, a kind of political narrative that's somewhat different from the narrative of we're competing against the Chinese.

There's also an issue of how do you -- I mean, I think we all know the numbers. The top 1 percent in the U.S. has gone, in terms of share of income, from 8 percent at the beginning of the transformation in the late '70s, early '80s -- from 8 percent of GDP to 24 percent of GDP. That's a pretty dramatic shift in the structure of income.

So that's really what I wanted to add. And maybe one final word on governance. The G-20, I agree, is a big breakthrough. The fact that you have these new powers around the table, it is less easy to manage than the G-7. Even the G-7 wasn't that easy. And I have taken part in some of these meetings; I know some of the G-7 officials are running around in the corridors saying "where are the good old days when you could have dinner with a manageable size, so to speak?" And Gideon says it's kind of -- the G-20, in a way, is -- you know, it's too small to be legitimate but it's too large to be effective and there's a lot of truth in that.

But nonetheless, I think the fact that the major players out there are interacting, that there's a process, there are working groups and all that -- I would still think it carries some promise, provided that it can be linked in a constructive and intelligent way to the functioning of the international institutions themselves. The, if you like, the more legitimate universal institutions.

I believe that the link between the G-20 and the IMF is actually going reasonably well. You know, it -- both the work at the IMF, the reform of the IMF, and the work of the G-20 -- it's not easy, but they're actually reinforcing one another. So, I would

think that concentrating on that and making sure that the G-20 proposes, takes initiatives, brings leaders together. But that the actual implementation and the institutional mechanism rather than a parallel one -- you know, a big secretary of the G-20, which I'm not favorable to -- that the actual implementation takes place through the existing institutions. You know, and these institutions may well need to be reformed. So I would kind of -- in the last chapter, I would have kind of added that perspective to what's there.

But I really thoroughly enjoyed reading it and I think I will enjoy discussing these things for the next months.

MR. RACHMAN: Thank you, thank you very much.

MS. HILL: Well, thank you, Kemal. And don't worry; we won't keep you all here for months (laughter). We've only got an hour and a half for discussion here. But obviously this is giving us all fodder for future events here at Brookings. And Gideon, you know, perhaps we can keep you coming back with your next iterations of your book.

Justin.

MR. VAISSE: Thanks. Well, I'd like to compliment Gideon as well for this *tour de force*. I think the book offers a very compelling overview, especially the first 60 percent is -- I think Kemal described it in exactly the right terms: deceptively easy to read, but really very comprehensive and very refreshing. Also, Gideon has been a very good friend of CUSE over the years, taking part in many events. And so it's only normal that we would honor him on this occasion.

But of course, as a discussant I would be remiss if I didn't bring a bit of controversy, which would be more on the overall concept rather than that first 60 percent, which really I thought very good.

Yeah, it's true that some situations today look a bit more zero-sum. But I would dispute that the concept captures even a large part, I would say, or even a

significant part of where the international system is headed. In other words, yes, it's true that we have some zero-sum situations in the present. But I disagree with the idea that we have a zero-sum future before us, which is the title of the book. And I see four reasons for that.

The first one is what Kemal said about economic growth. You know, I'm using the usual metaphor that economists use. The pie is still growing. And so, maybe there are distributional problems for that, but it still -- I don't have the impression that it's going to be permanently slower growth.

A good example, I think, is -- and a slightly different idea -- is climate change. You describe climate change as being basically all pain, no gain because -- yeah, because we have to reduce carbon emissions and this will cost us points of growth. So, here, yeah, it's definitely zero-sum.

But then I would say that you are a bit too dismissive of the fact that the - what has been called the green economy could bring -- not necessarily in the next two or three years, but over the long term some extra activity and also some extra technologies. I'm sort of showing a bit of American optimism here. New technologies that would, in turn, make the pie grow.

The second reason is that as a historian, I've seen descriptions of zero-sum situations before in the past. The -- you know, the Club of Rome in 1972 and the limits to growth, and then in the next few years. And you make that parallel between the '70s and now. And I think it's very adequate, except that, of course, after that there was the age of transformation and the age of optimism. And so, the Club of Rome, the limits to growth, the idea that it was a finite world, that resources in terms of energy -- that was the oil shock -- and the drive for resources, etcetera, would lead to more confrontation. Yes, it was true for a couple of years, but then it changed and it changed for a number of

reasons. Or think of the India situation, the green revolution in India and the fact that the pie literally grew immensely in the '60s and '70s and '80s and managed to feed all Indians.

Also, a third point is that it seems to me that the idea of the zero-sum game is largely based on sort of a rational choice muddle or approach at one precise moment, perhaps missing the sort of intergenerational, intertemporal dimension. What I mean by that is that actors don't necessarily make decisions based on their immediate interests, even at a time when national clashes seem to intensify. And that's one of the pillars of your argument for justifying the idea that it's a zero-sum world.

I mean, look at the Euro crisis, for example, which you mentioned earlier. At one precise moment last year, it would have been rational for Germany to ditch the Euro. You could say that this -- there was a tradeoff to be made, and that it could have been rational for Germany to do just that. And it didn't. And repeatedly policy makers have sort of taken other things into account, especially the sort of long-term vision or the policy vision which, it seems to me, at least limits the impact of rational choice and zero-sum game.

Last point, very, very briefly to sort of try to bring a bit of skepticism on the idea of zero-sum is that, you know, that is a very short-term remark. But it seems that the march towards democracy or towards the end of history is back. And it's back because of the events in Tunisia and Egypt. And, you know, we don't know what's going to happen, et cetera. But still, it happened in Tunisia and it seems more or less going in the right direction. We don't know what's going to happen in Egypt, but it happened.

And it happened in the place that was the most resistant to that, right? Scholars have discussed whether there was a sort of, you know, Islamic curse against democracy, that democracy could not take hold. And of course that was a very narrow vision

because the real problem was the Arab world, where you don't find real Arab democracies. And now, that lock, which seemed very solid, seems to be broken. And so this may end up badly, but the horizon has sort of reopened and I'm not -- and this argument is pretty good because I took it from your book. I actually stole it. I actually stole it from you.

MR. RACHMAN: You actually got to the end. I'm impressed.

MS. HILL: He's drawn all over your book as well.

MR. VAISSE: On page 283 you write: "there is for the moment a confident group of authoritarian powers. But the global move towards democracy has taken place over centuries and progress will eventually resume. It could happen quite soon."

And then you say --

MS. HILL: No, you were so prescient.

MR. RACHMAN: Mystic Meg, yes.

MR. VAISSE: A resumption of the trend towards democracy might help change the logic of zero-sum world. It is true that some of the assumption of democratic peace theory are a little naïve, etcetera. But anyway, so I think that's a good -- I think that's a true argument which, once again, revitalizes the idea of zero-sum world.

So, that this is why I'm a bit skeptical on that. Now, I've got three remarks on the U.S.-China and Europe, briefly. On the U.S., it's a pretty simple idea that I got while reading your book, which is that what Gideon calls the age of anxiety and military polarity, more generally, is really the child of the American world but in two ways, as a triumph and as a stumble or as a catastrophe. As a catastrophe or as a stumble, it's -- well, you know, simply because the economic crisis was made in the USA on the economic side, and also because the geopolitical troubles that America has were largely

self-inflicted. And so yes, in this sense America sort of brought it on itself, you could say.

But then also as a triumph -- and that idea seems at least as interesting as the previous one -- the idea that the situation we have now and the multipolarity and the growth of emerging powers is the triumph of American ideals. The spread of free market democracies. And of course, they bring negative developments as well as positive developments, I mean, economic competition, obviously. Democracy, I mean, democracy makes it more complicated to run the world, in a sense, because they -- people -- politicians want to be reelected, and so basically they will be more hesitant to do the tradeoffs that are necessary to attain a better global governance.

But of course, there's one thing that got wrong in that picture, you could argue, and that's China. So that leads me to the China part. And I'd like to offer a provocative thought. The idea is that -- my idea is that it's not necessarily a zero-sum game that we have now, but it's a win-win game that is distorted by one actor. In a sense, the book could be renamed -- at least the 40 percent part, the second part -- the Chinese Crisis of the International System. Because there's --

MR. RACHMAN: That's a good title for the next book. (Laughter)

MR. VAÏSSE: There's no development related to the main thesis of the book that doesn't point to China. The drive for resources, especially energy, trade wars, and currency wars, the lack of diplomatic unity on issues like Iran, climate change, China, it's the first polluter, etcetera. And so, the question that I had was, isn't the overall theme of the book the inclusion of 1.3 billion people into the world economy - or rather their return, in a sense, to the world economy after a long eclipse - leading to distributional conflicts?

But I would go one step further and say that there's probably a case to be made that many ills come from the sort of schizophrenic nature of China as a non-free

market economy. It's sort of the same way we espouse the Saudi schizophrenia and their legitimacy problem. We espoused the Chinese imbalances, and the need to feed growth in order to avoid social unrest, right? Growth is necessary in China, and so the Chinese leadership will do everything they can in order to maintain that level of growth, in order to avoid social troubles, in order to stay in power.

So, support for exports, currency manipulation, up cycles to imports, and sometimes investment, et cetera. So, you know, that leads me -- and I know that's a sort of caricature. But that leads me to the idea that, you know, once again, no, it's not a zero-sum game. Someone is gaming the win-win system of globalization.

Okay, maybe that's putting it too far. But you quote all these people who criticize China more or less on these grounds in the book. But I -- you know, sometimes I got to wonder to what extent they are actually right on this.

And I'll skip the rest on China and get to Europe to try to speak for no more than my allotted time. Yes, on Europe it's true, also, that the zero-sum game seems to be increasing. There's a re-nationalization of European integration, even -- I mean, even under the Lisbon Treaty, Europe -- the EU has become more intergovernmental and less supra-governmental. The Euro crisis has brought very strong tensions among countries, etcetera.

But then I wonder -- and, you know, that may be an inordinate display of optimism - but I wonder if that's not only the surface. Under the surface, I see at least three encouraging trends that seem to me to back the idea of a zero-sum world for Europe. The first thing is that, you know, obviously we now can say that the crisis is forcing more Europe. Simply because Europeans don't have much of a choice, and also because they have a preference for sticking together for various prestige and political reasons. And so at the end of the day, because of the mechanisms that have already

been put in place, and even if they are harshly negotiated now, at the end of the day we might end up -- Europe might end up stronger.

The second reason is that, unlike the wider international system -- see, for example, the Doha Round -- the EU does have a mechanism to cope with zero-sum situations in the sense that it has a mechanism for adjudicating, you know, rationing, if you'd like. You know, think of, for example, of climate change and the way Europe was able to come up -- to sort of divide the overall effort of reducing carbon emission among countries, for example, like Poland, which relies heavily on coal; France, which has a much better situation because of the nuclear program, you know, Italy, the UK, etcetera. And in the end, they manage to make the sort of painful zero-sum decision in order to reach the aim of having 20 percent reduction in 2020, and even possibly more.

And why is that? Because Europe has institutions, has rules, predictability. Also, sees in the long-term, which -- all things that do not exist in the international system; it's not the G-20, not even the G-8. That is to say, when countries lose on one point or, you know, they lose today, they know they'll win tomorrow. And there's a sort of sociability or social predictability that ensures -- and based on a common culture, political culture - that ensures that Europe is able to cope with zero-sum situations.

And the last point, the last development which I would say also makes me a bit more hopeful for Europe, at least, is the fact that there seems to be sort of an acceptance of the fortunes and misfortunes that is quite striking. I mean, think of Ireland and Greece. Yes, there have been some demonstrations, but, at the end of the day, way less than we expected. I mean, you know, who knows? Maybe two months from now there will be a revolution in the streets of Athens. It's quite possible. But at the moment, the Greeks and the Irish are doing something which is extraordinarily painful, which is

sort of a forced deflation without currency devaluation. So without it being sort of imposed by someone else, by reducing salaries, etcetera.

And I don't see many other entities or countries -- especially the U.S. and the Tea Party, et cetera -- accepting that sort of constraints on their sovereignty and on their level of wellbeing.

And I'll stop here in the interest of time. But once again, I was really thrilled to read the book until the end and enjoyed, especially, the historical part.

MS. HILL: Thanks. Gideon, you've had a lot of food for thought here. Before we throw it over for more commentary from the audience, I thought I'd give you a quick opportunity to respond.

MR. RACHMAN: Yeah, sure. There were so many points I can't respond to them all without taking up all the time, but I'll just respond to a few.

I think both Kemal and Justin made the point that, well, maybe the resumption of economic growth sort of will wash away some of these problems and make things look more positive, more win-win if you want to.

I'd take that point, but I would say that the trouble is that the resumption of economic growth, at least in the West, has been associated with very extreme and unsustainable economic policies. When the U.S. can start growing normally again without running budget deficits of 10 to 11 percent, fine. But you know, we've discovered -- we're discovering in my own country that when you try to balance the budget the economy comes to a shattering halt. That's what's happening in Britain.

And so, and similarly in Europe, yeah, you know, Germany is doing well but most other European countries are not doing terribly well and have these sovereign debt crises or looming sovereign debt crises, don't have any long-term perspective on how they're going to balance their budgets, particularly with aging populations. So I don't

think we can say, oh, well, you know, it's all fine now. The economy is revived. I think it's more complicated and more troubled than that.

The technology point I think is a very good one. I mean, I was thinking about this. I think that people who see the world through the prism of technology tend to be optimists. And people who think about great power politics tend to be pessimists. So, you know, so you have at one extreme, sort of John Mearsheimer writing *The Tragedy of Great Power Politics*, how everybody always ends up killing each other.

And then I was once actually at an event with Bill Gates where he was, you know, the classic technological optimist, expounding how the world had advanced fantastically over the last century. And in fact, he's a man -- he's incredibly positive about the rise of China for that reason. And somebody said to him: "but Mr. Gates, in the 20th century there was the Second World War." He said: "yeah, well, you had some blips." (Laughter) So, you know, in a funny way, he's right. There was this tremendous progress and so on. But it depends which perspective you want to look at it. I mean, I do think in the long run, you know, the way we're going to get out of these problems and the way we've got out of them in the past is some technological advance that we haven't really thought of.

But in a way that requires almost a -- I don't know whether thinking about technology is just an acknowledgement of that's how history changes. It feels a bit mystical to me. It's like the sort of Dickens character who says something will turn up. You know, something will happen. There will be a technological breakthrough. It is true, it's happened in the past, but for the moment we do have these distributional conflicts, these climate change issues which are difficult. And I think that whether or not countries are right to worry about resource battles, I think they -- it's already influencing their foreign policy and creating conflicts so that, for example, over the chase for oil in Africa or

the Middle East, the attempts to buyout farmland in Africa by various countries. There is a sense that, at least for the moment, countries are behaving as if they already are engaged in the competition for resources.

A point -- yeah, I'll just do two more quick points. Leadership. I think you're right. It's terribly important, in the sense that I describe all these forces that are pushing us towards a zero-sum game but I'm not an inevitablist, sort of determinist. I think a lot of it is due to enlightened leadership and perhaps we're lucky that at the moment we have two kind of fairly pragmatic leaders in the U.S. and China, Hu Jintao and Obama, neither of them particularly hysterical people. And so but, you know, and another generation of leadership in 2012. There's going to be this incredible turnover of world leaders: China, the U.S., France, Russia. You get a new group. I'm not sure things will always be smooth.

You made the point I was going to make about Tunisia and Egypt. Yeah, I think that is a hopeful side that potentially, who knows. If you want to again see it in terms of long-term trends, the best thing that could possibly happen to that part of the world is that it gets sucked into the more liberal political and economic order that's spread around the world during the age of optimism. But that could be a very bumpy and destabilizing process.

And finally, income inequality, I think that's a really interesting point about globalization. And you know, as people look around as they feel more insecure, either because they've lost their jobs or because their incomes are stagnant, there is naturally an effort to try to look for, well, who are the -- who's to blame for this? And I remember talking to a big industrialist here who has big interests in China who said, "well, thank God they're beating up on the bankers because otherwise they'd be going after the Chinese." Because in the sense there was a sense that -- he said all the conditions are

in place for an anti-China backlash in the U.S. And he was slightly surprised that it actually that hasn't been more pronounced.

I think the interesting question is whether people make a connection between the income inequality, growing income inequality here and in Europe and the rise in emerging markets. Because I think there is arguably a connection to be made because, you know, our multinational firms are multinationals. They're responsible to themselves, to their shareholders, etcetera, not for creating jobs here in the U.S. or in Europe. It's not hard to see how the export of jobs and the income inequality go hand in hand with globalization.

So there's an argument waiting to be made there. But for the moment actually, I'm mildly surprised by how little anti-globalization backlash there has been in politics. Certainly if you look in opinion polls there's a *huge* division between elite opinion and popular opinion on free trade. Elites tend to be very, very pro free trade. And I think it was in the Pew Poll, Americans actually support free trade less than any other nation, instinctively. And yet the elite holds the line for the moment.

MS. HILL: Gideon, that's great. I'm going to add a couple more things to your list here and then pull in some other people.

Where you've just finished up here raises another set of questions because obviously given the growth that Kemal and you and Justin have been talking about in the non-OECD and the emerging countries, you know, this is from a lower base. And what we haven't talked about here is there's also growing inequality in all of these countries, too. Egypt, you know, wasn't exactly completely economically stagnant. And if we sort of start thinking about some of the emerging economies -- China and many others --

SPEAKER: India.

MS. HILL: -- they all have -- and India -- glaring inequalities. And what the event showed us in Tunisia, the backlash was against Ben Ali and his extended family, who clearly were concentrating wealth by virtue of the system that was generated there.

We also know that in places like Russia, beneath the surface there's a lot of frustration and anger at the high concentration and very evident concentration of wealth around a tight circle. And in China there has already been a massive backlash on the popular level against the corrupt officials at the top who have also seemed to enrich themselves and various business people, so.

MR. RACHMAN: I don't think it's coincidental that the Chinese are censoring pictures of what was coming out of Cairo.

MS. HILL: You're exactly right. And I mean, the same was obviously happening in Russia and elsewhere. There's a great deal of anxiety that growth has also come at the expense in all of these countries of different groups of people.

That also raises a question. We were talking about competition of resources and I don't recall whether the book -- did you finish it before the old WikiLeaks debacle?

SPEAKER: Yeah.

MS. HILL: But we also have a competition over information. And this is another feature of what we've seen in Egypt and Tunisia. Another Twitter revolution. The Google executive who was instrumental in the events in Egypt, who was seized and imprisoned because he was clearly shuttering the information hold of the governments. It's a bit difficult now to define an authoritarian system where there is so much of a bursting open of information. I mean, it's easier to control information in a place like Uzbekistan, perhaps, just using one example from the neck of the woods that I worked on

for a lot of time, than it is in an Egypt, to Tunisia, or China for that matter. So I think these are things that we also have to contemplate here. The areas of the world that we're looking at with envy for their growth are also subject to internal strains and stresses that may make the next 10 to 15 years even more uncertain.

Anyway, there were a few hands that I saw. Two here. We've got a roving mike but let's just add these two to the list. The gentleman here and then the lady in the white.

MR. BIRNBAUM: Okay. I'm Norman Birnbaum, I'm from Georgetown University. And I wish to thank the panelists for already too many ideas to digest in one afternoon. But I would like to ask Mr. Rachman who's traveled widely, what's his estimate of the capacity of the American political elite, taken very broadly, to deal with this change? Clearly we've seen that in the past half century some of the European elites have done rather well, Germany recovering from its abysmal position, the British and French in making adjustments to their changed position in the world and so on. And whether the United States elite has done as well using its advantages in the last 50 years is a very open question. But what about the immediate future when the challenges will get much more severe and much more difficult?

MS. HILL: Thank you. Good question.

MS. EINSIDE: Hello, Heier Einside from Kings College London.

I just wanted to ask a little bit more about sort of where the zero-sum concept fits within the military equation, specifically the correlation of conventional forces.

MS. HILL: Garrett Mitchell.

MR. MITCHELL: Thanks. Garrett Mitchell from the Mitchell Report.

I want to ask about two things that I didn't hear mentioned and I would be interested to know whether, a, they're in the book in some way or another of part of your

thinking is you looked at all of this.

The first is the potential for demography to change things in a way that I think few of us can comprehend. And I would just point to a quite stunning article in *Foreign Affairs* by Nicholas Eberstadt at the American Enterprise Institute that was I thought sort of path-breaking in terms of the analysis of what it will mean to the developed countries. I won't expand on it. So the first question is around the role --

MR. RACHMAN: Do, actually, I'm interested. Give us the two sentence summary.

MR. MITCHELL: I think the two sentence summary would be that it is perhaps the most mis-, least understood, least paid attention to, and has the greatest potential to be a revolutionary factor, particularly in the developed economies so that, for example, you look at a Russia today that in 25 years will be the size of Italy, population-wise. We all know what the implications are here in American domestic politics with the social programs. So I'm interested in the demographic component.

And the second is - there is another sort of zero-sum point of view with which I'm sure you're familiar written by another Englishman who writes for a paper you may not know about called *The Economist*. (Laughter) And Bill Emmott says in *The Rivals* that the real story, as opposed to the one, you know, the rise of the rest, is that in the foreseeable future Asia will have three major powers -- India, Japan, and China -- competing with each other. And that that may in fact be where the real battles come in this sort of zero-sum thinking may emerge. And I'm just interested in whether that is something that you've looked at and can talk about.

MS. HILL: Good question. Gideon?

MR. RACHMAN: Yeah. Well, I think the whole question of the adaptability of the American elite is a very interesting one. I mean, who knows what the

secret thoughts of President Obama are on America's position in the world. But I say that because I think it's quite hard for them to talk about things like U.S. decline, to have an open discussion about it because you're leapt on so immediately and labeled as a declinist even if to the rest of us you're just talking openly about established economic trends.

You saw what happened to Obama when he gave a perfectly rational answer to the question of American exceptionalism. The debate is so polarized that I think he is kind of forced into at least publicly a series of kind of rather gung-ho positions on the U.S. which he may realize doesn't really reflect reality but which nonetheless pin him in in the way that you react to events. So I would worry less about the elite who are probably pretty informed and intelligent about knowing, you know, both the extent and the limits of American power. They may find it's difficult to adjust, as everybody does psychologically to, you know, to diminution of power, but they understand, I think, basically the trends. And what they can do within the confines of what's permissible political speech in the United States. I think that's a real problem.

On this -- I think both the question about rivalries within Asia and about the military balance are very similar questions. I mean, it seems to me that, you know, the whole question of conventional military forces is really the hardest end of the power shift. That's where it really gets quite basic and I mentioned these Brookings trips that I went on. I remember going on a trip with a bunch of Europeans and a bunch of Americans -- the Americans were all from Brookings -- to Asia. And we were witnessing this discussion. We, the Europeans, were witnessing this discussion between the Americans and the Chinese, which was the sort you never hear in Europe anymore. It was about kind of submarines and ballistic missiles. It was, you know, really kind of militaristic, I mean, in the sense that that is what they were talking about. That's what this

power struggle came down to in the end.

And I think that is why obviously the whole question of the Chinese military buildup is significant. And I think lying behind that is this question of: is it sustainable for the U.S. to be the dominant military power in the Pacific long into the future? And I think the Chinese, if you talk to them about it, say 10 -- I think the official lines seem to be two things: "We're not challenging this. It's fine for the U.S. to be here." You follow up with the next question and say, well, do you think they still will be in 50 years? "No." You know, they -- I think they don't want to have a confrontation. Why would they? You know, that would be in nobody's interests. But I think that they see the shift in power as coming through economics, through an accumulation of economic power in China, a weakening of American power, and that, you know, it will happen anyway. That's kind of the way the world goes.

And to give you another example of a conversation I had when I was there recently, I was talking to a senior Chinese academic who deals with the U.S., and we talked about the Taiwan Straits crisis in 1996, when the U.S. sent an aircraft carrier. And he said, "yeah, well, they wouldn't do that again." And what he meant -- I mean, he may be wrong about that - but I think he sensed that, you know, the power in the last 15 years has shifted enough for the range of permissible American actions to be shrinking a bit.

And similarly, this is where it comes to the whole question of Bill Emmott's book and rivalries and the road of other powers, etcetera, because obviously what the U.S. can do and is doing is to have a sort of policy of sort containment, a string of alliances with likeminded democracies -- Australia, Japan, India, etcetera. And the Chinese are worried about that and perhaps legitimately so.

But I think that there are countries in the region, even as they ally with

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

America, have to ask themselves: is America still going to be here in the long run? A Singaporean friend put it to me. He said, you know, "we do want the Americans to stay but we know that in a thousand years China will still be here. We don't know if the Americans will still be here in 100 years' time."

And as a result you get an oscillation in their policies, particularly because their economic and strategic interests are pointing in slightly different directions now. So for Japan, Australia, Korea, their major trading partner by some way is China, but their major ally is the United States. So they're pointing in slightly different directions.

A lot will depend on how much they get frightened by Chinese actions. And I think the Chinese over the last year have slightly overplayed their hand so that they missed a historic opportunity when there was a Japanese Prime Minister Hatoyama who was very keen on rapprochement with China, sent these delegations to Beijing, etcetera. They didn't really take advantage of that and then they had this clash with the Japanese over the fishing boats and the seas which, you know, sent the Japanese sort of scuttling back into the U.S.-Japanese alliance. But I think that that we'll probably see more oscillations of that sort because actually the countries in the region have a genuine strategic dilemma.

MS. HILL: You didn't mention the demographic issue.

MR. RACHMAN: Yeah.

MS. HILL: Let me just push that one a little further because, I mean, Russia and the decline of the population is well known but, I mean, another point that Nick touched upon and others have been making is about China itself, which is, of course, the rapid aging of the population, which should also be unprecedented. We saw it in the case of Japan but in China through the one-child policy, you're talking in 50, 100, 1,000-year timescales here. China will be a very different country in those kind of time

scales than it is now when we're talking about the billions of people and the so-called "Asian economic miracle for East Asia"; for the other countries beyond China was also the result of this sudden influx of younger people into the workforce. Well, you know, unless the Chinese continue on the longevity and retirement ages are raised to 100, you know, there's going to be some issues for the Chinese economy looking forward. And of course, you know, you raised the population zero growth in Germany and elsewhere in Europe. But, I mean, how do you think this is going to play into looking out beyond the next 10, 15 years?

MR. RACHMAN: Well, you're right, I didn't answer that question because I don't have a good answer to it. I mean, I do refer to the demographic issues across, you know, both for Europe and for China. And I think, you know, I would put it in the category of acknowledged Chinese weaknesses. So there is a danger in the kind of argument I'm making and certainly arguments that you hear elsewhere in the U.S. of making the Chinese that are 12-foot tall and nothing can ever go wrong, etcetera, etcetera. And we're all guessing.

You know, one of the things in writing the historical bit of the books is that I realized one of the things that really change the world are the ones that people haven't really anticipated that suddenly, you know, a problem emerges and they think, oh, you know, why didn't we see the Berlin Wall was about to fall? It's so obvious in retrospect. And so there are all sorts of weaknesses in Chinese society, some of which may prove really debilitating.

The reason I took a sort of long-term kind of optimistic view of it is partly because I've sort of heard this story for a long time. There was a period -- you mentioned *The Economist*. I used to be *The Economist* Asia representative in the mid-'90s and even then people were writing, oh, you know, China, house of cards. It's going to

collapse any moment, you know, the banking system, the state-owned enterprises. You name it. And the environment. And, you know, it never happened. They keep growing at nine to 10 percent a year. Now, clearly they're not going to grow at that rate forever and ever. And clearly people weren't making up these problems, but I think, you know, there's a long-term momentum in China which still has quite a way to run. You know, they will hit demographic and environmental problems but I can't see them going from 9 to 10 percent a year to kind of 0.

MS. HILL: Right. Right.

MR. RACHMAN: In the next five years or so.

MS. HILL: Well, let me bring Kemal in on this. I mean, this is of the area of expertise of your programs here at Brookings, but also things that you grappled with when you were at the UNDP.

MR. DERVIŞ: Well, you know, I mean, I think demography is very important. And the overall aging issue and health issue is one of the big, big fiscal and economic challenges that many countries face. So I think particularly for the advanced countries it's a very, very big issues. On China, when you look at the numbers carefully, you have -- you have an aging but you don't have a demographic collapse in China. Not at all. And in fact, an analysis of labor supply suggests that in the next 10 to 15 years there's still sufficient, you know, surplus labor that can be absorbed in the modern sector so that one of the major dynamics of growth will continue.

Now, India has a more favorable democracy. Well, democracy and also demography. But the Indian demography is almost ideal, you know, it's not an explosive demography, but a very health demography, and that's why I'm actually very optimistic in terms of medium term prospects for India.

So in terms of return to capital, which is another, you know, many people

and you just mentioned it -- state enterprise. Well, there are very good studies of return to capital in China which show that the return to capital is actually quite high still, despite the high investment rates of the order of 20 percent. And that's because of the technological catch up, you know, the spread of new technologies inside the country and so on. So I would, you know, I don't want to venture, you know, a prediction for the next 30 years or so but for the next decade, unless there's some really major political problem, I don't see a significant slowdown in the Chinese growth rate. And I see, if anything, you know, a kind of continuation.

China may go down a little bit if you ask me. They'll probably lose 1 or 2 percentage points. India probably will hold around 8. And the combination of that, you know, 8 percent, let's say for both, is just a huge unprecedented economic event.

So then the question is, what about climate and resources and water and all that? I think that's a very serious question. And there, you know, as we all said, a lot depends on technology. I do believe that if the incentives are right, if the carbon price can rise, you know, there are technological answers to many of these problems, but they won't happen unless the pricing is correct and the incentives are correct. And in that sense climate policy and pricing of carbon and so on is very, very important.

Now, on income distribution, one thing that intrigues me and I think it's a very interesting question and I don't really have the answer is: is it true, you know, the kind of standard, neoclassical economists argument on income distribution is that it's largely determined by the nature of technical progress and, you know, labor saving technical progress, generates pressure on the wage. And then there's globalization, trade, the fact that lower income countries have come in in a major way. Labor intensive goods, you know, are very competitive and there's downward pressure on low skill wages and so on in the advanced world. And I think to a great degree that's true. And of course

there are also unequal income distribution developments very much so in China and in many parts of the developing world. However, what is very intriguing I think is that, you know, basically most countries are open to the same technologies now and the same trade and globalization trends. Okay? And yet the way income distribution moves in different countries is quite different. The, you know, the U.S. has moved in a very different way from continental Europe. And yet, you know, they have access to the same technological trends and they're affected by the same trade trends. In some developing countries there is a very strong concentration and movement toward greater inequality.

On the other hand, in some Latin American countries, particularly Brazil, we've had a decade of improving income distribution. And what that leads me to is to say, yes, we have these global trends and technology and trade and so on but the policy also matters. This is not kind of God-given or technology given. That the way, you know, policies are structured, the way the taxation works, the way social norms and behaviors work is also very important.

And I come back to the point I made. To construct a more positive sum world I think it is actually very important to look at distribution policies within countries and not just at, you know, distribution issues between countries.

MS. HILL: That's' good, thank you. There were two questions over here. Oh, three now. This lady was first. The gentleman here, and then the other gentleman behind. So we have three people together. Thanks.

SPEAKER: Thank you. Adrian (inaudible) from Deutsche Welle. You mentioned -- Mr. Dervis -- you mentioned before that multipolarity is -- can be problematic because nobody feels responsible. And my question is a more general one. Now you have China and India being so economically integrated with Europe and the United States and I would like to know: do you think is this more positive on a midterm range or

is it posing more problem? Like, for example, now local decisions in Beijing affect whole stock markets in Europe. Like three weeks ago the decision in Beijing to stop registering cars made the Frankfurt stock market tremble. So does it help us to get along with China, the United States, and Europe, or is it more posing problems to really see the whole situation objectively? Thank you.

MS. HILL: Thanks. The other questions are here. This gentleman here and then behind here.

MR. STACEY: Hello, Jeff Stacey from the State Department. I really enjoyed your year in review or year-end review article in the FT. I thought you got a lot of things really right, the perspective you had there. I haven't read the book. Looking forward to doing that.

I wonder if in the book you also compare today to the analog of the late '80s, early '90s when the average American was worried about a different sort of economic competition, the Japanese competition, and the news that they bought a controlling stake in Rockefeller Center and all these things? And Lester Thurow's book *Head to Head* came out and there was a lot of Japanese bashing in the U.S.

A flurry of recent polls have come out and show that the average American believes that the average Chinese citizen is far better off than the average American. This is just dramatically, obviously, not the case, but the perception is a little worrying. And you alluded to the campaign. Obviously, the person who won that campaign did not sort of unsheathe the sword that he could have used, or a different metaphor, play that card. Nor did the Tea Party, actually. But is there a danger, if there's too much jingoistic talk among elites about this coming competition and the new sort of head-to-heat that despite a number of recent things where we had -- we have more wide and deep engagement U.S.-Chinese than we had in a long time.

We just had a very successful summit. You don't see what academics call balancing behavior toward either direction. The average Chinese citizen is a little freer today than they've been in some time. Is there a danger that too much of this sort of talk among elites can sort of light a match in the way that you kind of alluded to earlier?

MR. HILL: Sir.

MR. BRADFORD: Colin Bradford, Brookings. Gideon, nice to have you here. Excellent presentation. We had an exchange of e-mails around the time of the Seoul Summit as you recall, about your article about seven pillars of tension, as I remember, in which you -- which was excellent, I thought. You can tell, again, the final sentence.

MR. RACHMAN: (inaudible)

MR. BRADFORD: So what I wanted is to just go back to you and sort of enliven this debate if we could is just to ask you several questions based on what you said, based on your geopolitical pessimism if I can put it that way, about the G-20. And that is would the world be better off -- would the G-2 relationship be better or worse without the G-20? Would the tensions and conflicts that exist in the world be exacerbated or lessened by the existence of the G-20? Does the fact that the G-20 leaders-level summit, the fact that it's accompanied by a very systematic, frequent set of communications and concertations and consultations among officials at senior levels in finance ministries and central banks among the 20 countries make a difference?

And finally, on this question that Kemal has raised about the sort of under-governance and the degree to which governments should cushion markets, that's a large part of the debate. Does the fact that the G-20 is folded into the FSB is a crucial part of the IMF on the whole financial regulatory peer pressure towards making sure this doesn't happen again because of a hands off the marketplace? Does that make any

difference? In other words, is a world without the G-20 -- you're critical of the G-20. The question really is, is the world better or worse off with it or without it?

MS. HILL: That's quite a set of tough questions there.

MR. RACHMAN: Yeah. Can I write them all down?

I think the first one was for Kemal, wasn't it? The question --

MS. HILL: Yeah, about the difficulties of governance. Yeah.

MR. RACHMAN: All right. Okay. Well, shall I answer and then I'll hand over to you, Kemal.

On the question is the world better or worse off without a G-20? No, I think it's a good thing the G-20 exists. I think the habits of talking to each other, you know, is important and I think it was, you know, a long overdue acknowledgement in some of these shifts and economic power that we've been talking about.

My critique of the G-20 is simply that I think that we pile too much expectations on it. And I think we're beginning to see its limitations. Yeah, in some of the technical areas, you know, the IMF is working quite well and the FSB and so on. But if you look at some of the goals that they have explicitly set themselves or the hopes invested in them on climate change, you know, I don't see them making any progress on that at all.

You talk about the need for global regulation to stop this happening again. I'm not sure that the -- that we're likely to see a set of global banking regulations that will be effective in reigning in the investment banks and stopping this kind of picking off of one country from another by, you know, threatening to move if you have too tough a regulatory regime in one country rather than another.

And similarly, global economic imbalances, which is the big issue which divides the U.S. and China. You know, they did the classic at Seoul with an insolvable

problem saying, well, we'll commission a report on this. But I don't see them actually able to solve it through that. Now, which is not to say it's not good that they meet and talk about it. I mean, generally that's a good thing unless you have a sort of massive confrontation.

But I don't think simply the creation of this body is enough to, and the identification of the common problems is enough to actually solve them because national interests are too clearly defined and in the end countries are not prepared to sacrifice. And partly because we're in this more multipolar world where, you know, if you let people -- there was a lot of talk about the need for a new Bretton Woods afterwards. But if you look back at the situation of Bretton Woods, the U.S. was so much the most powerful country at the table. It was essentially able to design institutions and impose them. Even the British weren't particularly happy with what came out of it. But that was, you know, an expression of unipolarity and it worked quite well. I think in this more balanced world that countries are able to deadlock each other and that's increasingly what we're seeing at the G-20.

Are we in danger of talking ourselves into conflict? Yeah, it's an interesting question. I mean, I think, you know, Henry Kissinger said that recently. He said on U.S.-China we're in danger of analyzing ourselves into a conflict, you know, but I think that, you know, for -- I claim the right to be as responsible as a journalist and just to say, well, this is how it looks to me. I can see that if you're a leader, a, it's not helpful to talk about these things much because, which is why Obama says this isn't a zero-sum world when he goes there, whatever he may think about actually a growing rivalry, because talking about it does up the ante.

And I think that also as a leader you want to deal as a diplomat. You might be a bit frustrated by sort of, you know, journalists hopping on on the areas of

conflict, which after all, make better stories when as you say there's deep cooperation on many issues. Nonetheless, I do think that there are structural forces that are economic, political, and historical, that are moving these two countries into a more adversarial relationship. And, you know, it's up to leaders how they talk about that. And leadership does have a big role in managing and mitigating these conflicts. But I don't think in the end it's a good thing just to self-sensor because it's too awkward to talk about these things. You know, I'm not totally disagreeing in the sense that there is a nationalistic strain in both societies, which can be sort of agitated by too much of this talk. But then what do you do? Do you just stop discussing it? It's very tricky.

What was, yeah, oh, is the economic relationship still beneficial? Yeah, I mean, I think that's one of the big questions, I mean, which underlies a lot of the current debate about America's economic relationship with China. My personal view is that, yes, basically it's largely, you know, beneficial. That's what, you know, trade is classically taught to be mutually good for both sides. But I do think it's interesting that the way the argument has shifted in the United States so that -- I think I said this before so I won't repeat myself -- but the likes of a Larry Summers, Krugman, these are serious economists. They're not sort of leaders of the UAW saying actually China is breaking the rules. China is a merchantilist country and that free trade is only good for you if both sides stick by the rules and China isn't sticking by the rules. The fact that serious people are better prepared to say that means that the debate is at least open.

MS. HILL: There was also the question from our colleague from the State Department about whether we're in a similar position to the late 1980s or 1990s.

MR. RACHMAN: Oh, yeah.

MS. HILL: I mean, it's tied to what you've just been talking about but --

MR. RACHMAN: That's a very good --

MS. HILL: So how different is this is really the question?

MR. RACHMAN: Well, you have to grapple with that because I was actually living here at the time. And of course, I remember the hysteria about Japan and Rising Sun and etcetera. And there's a question. Are we simply just -- is this just the latest scare? You know, and similarly you could point to the early '60s when Kennedy was saying, you know, the Soviet Union is about to overtake us and that was also nonsense as it turned out. So maybe this latest challenge will also disappear.

I think it's different this time partly because, well, what would make China different from the Soviet scare and from the Japanese scare? From the Soviet scare because we now know in retrospect the Soviet economy was a basket case. We didn't realize that because it wasn't competing on world markets. China does compete on world markets. We can see it's an internationally competitive economy. We can see it's growing so it's not economically dysfunctional in the way that the Soviet Union is; rather the reverse.

Japan it seems to me was never plausible, in retrospect, that Japan would be number one simply for your point, demography. I mean, the population is just too small. You know, the Japanese -- the average Japanese would have had to have a per capital GDP twice that of an American for the economy to be larger than that of the United States. Similarly, but China is a big place. There are four times as many of them. So quite, I think it's entirely likely, perhaps even inevitable at some point the Chinese economy will be the largest in the world.

Now, there's not a direct relationship between X amount of -- size of the economy equals X amount of political power. It's much more complicated than that. But there is surely a relationship between the weight of an economy and its political weight in the world. And I think you're already seeing that. For example, in the European Union

where quite deliberately the Chinese, I think, have made a point of going around and buying Portuguese and Greek debts with the cameras clicking to make a point about, you know, we have the financial firepower now. You know, it would have been the U.S. with the Marshall Plan years ago, but now this mini little Marshall Plan is coming out of Beijing. So money, the size of economy, does translate into power.

MS. HILL: Kemal?

MR. DERVIŞ: Well, just very briefly on the Japanese comparison. I mean, I think the population thing is very important. You know, Japan joined the advanced club. There were 130 million people joining it. Now we have, again, I keep adding India in the medium term.

MR. RACHMAN: Absolutely.

MR. DERVIŞ: You know, we have three to four billion people and that's just a different phenomenon. We can't really -- it's a different story. I mean, it's a complicated story but it's a much, much -- it's an event with much greater significance than the Japanese catch up, which was spectacular in terms of growth.

And finally, in terms of, you know, the question from the Deutsche Welle, I wish, you know, economists always wish, and many of us wish that economic interaction can lead to peace and harmony. And I think there are forces in that direction, of course, that, you know, common interests, investments, the fact that pension funds hold assets in emerging markets and vice versa and can lead -- can help the cause of peace. On the other hand, unfortunately, when you look at history, and again, World War I is a very good example that, you know, unfortunately conflict can arise in different ways despite that. And one of the more dramatic cases we saw more recently was, you know, Yugoslavia. I mean there was very, very many economic unity in that country, lots of interaction. In fact, even intermarriage. I mean, the rate of intermarriage

between the various ethnic groups in Yugoslavia was quite substantial. And yet, a terrible conflict broke out.

So, you know, while I believe economics can help, one should definitely not think that just because people are interacting economically and mutually-dependent one another that conflict cannot happen.

MS. HILL: Yeah, the World War I analogy is quite important there too for another reason because it wasn't just about Britain worrying about the rise of Germany; it was the other continental European power states of varying sizes also worrying about the rise of Germany and what that meant.

And, you know, you're mentioning India. We keep talking about the China-U.S. relationship. It's only U.S. and China out there but there are a great deal of concerns being channeled by a whole host of other states about their relationships with China, both on the economic and political level. India itself has tensions in the relationship with China. The Russians are very anxious about China doing exactly what you're talking about, about not wanting to up the ante in the relationship. They don't want to talk about the prospective tensions ahead. They talk about how good the relationship is with China when any serious analytical inquiry would show that in fact there are rocky times ahead. And we know, of course, that most of the countries surrounding China and East Asia are increasingly anxious. The Australians are anxious about their future relationship with China. So, you know, perhaps in some regard that point that both of you keep stressing here is important.

There was one question that I left at the back, this gentleman here, and then I'd like to bring in everyone just for a wrap-up because we're at the end of our time now.

MR. MORROW: Daniel Morrow from Johns Hopkins, SAIS, Center for

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

Transatlantic Relations.

My question is: don't you think that it's time that the Europeans and the Americans start to ask to the Chinese and the Indians, for instance, to come to fight the pirates in front of Somalia, to share the bill? Because I don't see why the Italian Navy must stand in front of Somalia to protect free trade for the Chinese, doing the same that the Americans did for the Japanese in the '60s, saving them a huge amount of money?

MS. HILL: Well, pirates. The one binding positive force that we can think of at the finish here.

MR. RACHMAN: Well, absolutely. I mean, he's got a point.

MS. HILL: A good segue to our ending.

MR. RACHMAN: I think Regan said, you know, about the U.S. and the Soviet Union: well, you know, if there was a Martian invasion, we'd all get on famously and unite. And so maybe the Somalis are the kind of Martians bringing the world together. Because, in fact, as I understand it, actually there is a pretty remarkable naval cooperation off that coast. I've visited the NATO headquarters. Bizarrely it's being commanded in North London, all the ships are way out there. And, you know, everybody -- the Chinese have sent ships, as have the Koreans. And indeed, even the Iranians, although they're not formally included in the talks.

So it's a modest example of international cooperation. I think the EU, you're probably right, is a bit overrepresented but nonetheless, this was, you know, a modest example of international cooperation. Although it's interesting that there are limits to it because if you talk to people they'll say, well, we'll actually never really solve the piracy problem until we sort out Somalia. And there doesn't seem to be a huge rush to intervene on the ground now for understandable reasons.

MS. HILL: Justin. Pirates?

MR. VAÏSSE: That was part of the part I cut because, of course, that begs the question how much is China ready to defend public goods? Right? And so what we see now is the EU as the largest force and then there's NATO and the U.S. Navy, obviously. But you also see China there. And I think it's in your book the number of Chinese peacekeepers, about 2,000 - Is that right? - for 100,000 among the U.N. peacekeepers which has been increasingly steadily. So we have two different futures here: either you see China taking more and more sort of global responsibilities and sort of stepping up what it does for precisely protecting globalization or playing a more zero-sum game and sort of free riding on the security provided by -- mostly by the U.S. and also by others. But, yeah, Somalia is the one bright spot on that.

MS. HILL: Kemal, any other bright spots? Somalia pirates isn't part of your program?

MR. DERVIŞ: Part of my research program.

MS. HILL: Anyway, a rather historic all the way back to some of the earlier ages of piracy to add to our list of the different ages.

Thank you, Gideon, for an extremely stimulating discussion. I'm hoping that everyone has already bought the book and will be rushing home to read it.

MS. RACHMAN: Thank you. Such a good saleswoman.

MS. HILL: I know. And then we can -- it's actually a very quick read. I read it in three Metro rides.

MR. RACHMAN: Wow!

MS. HILL: Of course, the Red Line, however, as most of you know, that was my three and a half days trapped on the Red Line during the weather events. But in any case, it made for a very good reading and made me forget the fact I was trapped in a tunnel with about 1,000 other people in my carriage.

So anyway, Gideon, thank you for saving me from an age of anxiety on the Red Line. And I do hope that your mini-tour of the United States -at least gets you out to Chicago and the Midwest - will go smoothly, will not be thwarted by pirates or, in fact, bad weather, and other problems that we've been facing recently. We look forward to the next book. And I think you've got all the chapter headings already from the various questions and comments from Justin and Kemal. And we also hope to see you at other Brookings events in the future here, there, and everywhere.

Thank you very much, everyone, for joining us. (Applause)

* * * * *

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2012

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190