China and America:
The Age of Realist Geoeconomics

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In the second half of the 20th century, the Pacific powers achieved an era of big power peace combined with the greatest improvement of living conditions in human history. Some two billion people rose out of animal-like subsistence. Unstable countries stabilized. Ideological conflicts quieted. Maoism and jihadism deflated. Big power differences were managed. Imperial Soviet power was defeated. The accomplishments were achieved by geoeconomic strategies, led by the U.S., protected but not dominated by the military. But in the early part of the 21st century the major Pacific powers have lost the thread of earlier success, limiting progress and endangering achievements.

Post-World War II Asia experienced a transformation of the strategic environment, defined by two changes. For the first time, human beings learned how to grow emerging economies from 7-10 percent annually, a marked change from the industrial revolution's then-novel 2 percent that fueled creation of the British empire, and from the 3-4 percent that undergirded the emergence of Meiji Japan and of U.S. global dominance.

Second, military technology became so destructive that pursuing national greatness in the old way, by seizing neighbors' territory, usually became at best a path to Pyrrhic victory. This increase in the destructiveness of military technology was not confined to nuclear weapons; conventional air power, sea power, infantry firepower, and even improvised explosive devices are vastly more destructive than in earlier eras.

These changes empowered countries whose national strategies deemphasized the traditional way of becoming an important power, namely using the military to seize large amounts of territory from neighbors, and empowered countries whose national strategies gave priority to economic competition. This shift did not mean that the military ever became unimportant; successful defense remained vital. But countries like North Korea and the Soviet Union, which gave overwhelming priority to the military, lost to countries like the U.S., Japan, South Korea, Indonesia and China, which gave priority to building their economies and assigned the military the role of protecting an economics-priority national strategy.

The Era of Geoeconomics: Phase One

U.S. Cold War strategy

Washington's postwar national strategy focused on economic reconstruction of Western Europe and Japan, stimulation of economic growth elsewhere, and creation of a set of institutions—IMF, World Bank, GATT/WTO, and others—and aid and institution-building programs that would bolster allies and create a global network of friendly nations. To protect the economic strategy Eisenhower insisted on containing military expenditures and warned at the end of his term against letting the military-industrial complex dominate policy. The Truman-Eisenhower geoeconomic strategy, protected by the military but not dominated by it, was sustained by presidents of both parties through the Clinton administration and proved successful beyond its founders' dreams. The powerful U.S. military prevented Soviet conquest of Germany or Japan before the economic strategy could be decisive. It created a military standoff behind which the U.S. and its allies could develop overwhelming economic superiority. Behind that shield, the U.S. developed a growing, self-funding, self-sustaining global network, a strong U.S. economy tied to a global network of prosperous, stable allies and friends. The Soviet Union, on the other hand, gave overwhelming priority to the military. Along with misguided socialist policies, this military priority crippled the Soviet economy. Whereas the U.S. and its prosperous allies enhanced each other's growth and made their economies more competitive, the Soviet empire became an economic drag. The Cold War ended with Soviet economic collapse.

Because most national security history is written by political scientists and military specialists, the fact that the Cold War was won by the U.S., and lost by the U.S.S.R., through economic strategies is normally obscured. Military power was vital, but the military confrontation was a standoff and economic strategies proved decisive.

Analyses of the present and future have tended even more to downplay or ignore economic strategies. Analyses of the Sino-U.S. relationship, such as the famous works of Mearsheimer and Allison, based on pre-World War II case studies miss a historic watershed as important as the industrial revolution: a new era in which the world learned how to grow economies much faster, thereby empowering national strategies that prioritized economic competition, and in which military technology became so destructive that national strategies emphasizing military conquest of one's neighbors became more often self-destructive.

The Asian Miracle

East Asian countries most successfully exploited the new postwar environment and the associated U.S. geoeconomic strategy. Japan became a big power by focusing on economic growth without a substantial military; its unexpected success became an economic model and magnet for northeast and southeast Asian countries that magnified the regional success of Washington's geoeconomic strategy. South Korea languished in military, economic and political inferiority to the north until General Park Chung Hee slashed the military budget and bet everything on economic development. Today South Korea towers over North Korea, with a purchasing power GDP 48 times larger. In Southeast Asia, until the mid-1960s Indonesia was the regional sick man, claiming much of Southeast Asia but suffering from hyperinflation, negative growth, ideological conflict and seemingly insuperable ethnic divisions. Then, in 1966, General Suharto seized power, abandoned most territorial claims on neighbors, and focused on economic development; swiftly Indonesia became ASEAN's undisputed leader. China was a latecomer, economically weak, politically in disarray, under a Maoist government that believed "Politics comes from the barrel of a gun" and put ideological criteria ahead of expertise until Deng Xiaoping gave economic growth absolute priority. Then quickly it became a big power, before beginning its military buildup.

The national strategies of countries emphasizing economic development transformed the lives of their citizens. That in turn stabilized their politics. In 1960 South Korea and Taiwan were among the world's poorest economies, and most hapless polities, similar or inferior to the backward countries of sub-Saharan Africa. Today their incomes and political stability are comparable to southern Europe.

While China's rise was the most dramatic, Indonesia's triumph was the archetypical success of the U.S. geoeconomic Cold War strategy. After independence, Sukarno's Indonesia seemed hopeless, with the world's third largest communist party and more radical jihadis than the rest of the world combined. Suharto suppressed the Indonesian Communist Party by force, a victory sustained by the economic growth that followed. Radical jihadism declined relatively peacefully as economic growth fed the rise of moderate Muslim groups, Muhammadiya and Nahdatul Ulama, and eventually enabled explicit deals with a secular government.

The stabilization of Indonesia, rendering it no longer vulnerable to communist subversion or jihadist destructiveness, was the decisive victory for the U.S. in Southeast Asia. That victory, and smaller victories over communist instability in Malay, the Philippines and elsewhere, offset the catastrophic military failure in Vietnam. If the U.S. had responded to Indonesian jihadism by bombing the jihadis in the 1960s, it would still be bombing them and losing.

The success of economics-focused strategies proved contagious. ASEAN's great success came not primarily through overt security alliances but primarily as a talk shop sharing successful economic policies. During the Cold War, all ASEAN countries except the Philippines eventually abandoned large claims on their neighbors' land territory. (Small ones remained, and maritime ones were initially neither a priority nor a drain.) After the Cold War had ended, Myanmar and the three communist countries of Southeast Asia acceded to ASEAN. If the U.S. had employed a predominantly military strategy against communism in Indonesia, Malaysia and the Philippines, the outcome might well have been those countries acceding to a communist coalition.

The obsession with economic growth stabilized the countries of eastern Asia internally, provided governments with the resources to defend themselves domestically and internationally, and created an overwhelming incentive to focus on domestic development rather than external aggression. U.S. economic aid, institution-building support, open markets, and the U.S.- oriented Bretton Woods institutions (development banks, IMF, GATT/WTO) tied these successful countries into close relations with the United States, gradually weakening the initial attractiveness of communist ideology and military power.

The success of these countries, with their U.S.-stimulated growth policies, contrasted with developments in South Asia, which fortunately was not such a decisive arena of Cold War rivalry. India and Pakistan remained focused on traditional military-territorial rivalries. India's border conflicts with Pakistan and Bangladesh and its subversion and later invasion of Sri Lanka did not subside the way Indonesian-Malaysian-Thai claims and rivalries subsided. Throughout the Cold War India remained, although ostensibly neutral, closer to the Soviet Union than to the U.S. and resistant to the open, market-oriented growth policies that had brought peace and prosperity to northeast and southeast Asia. Only after the Soviet Union collapsed and China's growth created a formidable challenge did

India begin to move toward east Asian economic priorities, while lagging far behind China.

Through aid, education, institution building, open markets, and support of the Bretton Woods economic institutions, the U.S. drove the Cold War era of peace and prosperity, accelerated in Asia by the regional impact of Japan's success. In countries like Indonesia the U.S. AID Director was as important as the military advisors. In retrospect, even America's local military battles served mainly to advance geoeconomic success. The Korean War stimulated Japan's post-World War II takeoff. Hundreds of billions of dollars of Vietnam War expenditures funded the early economic miracle in Southeast Asia, most notably by providing Thailand with modern ports, airports, roads and other critical infrastructure. Japan saw an opportunity to achieve by economic means what it had failed to achieve by the military-dominated East Asia Co-Prosperity Sphere and planned a trade and investment network that would bring South Korea, Taiwan and Southeast Asia under soft Japanese dominance. Although Japan always had in mind that Tokyo, not Washington, would dominate the region, its geoeconomic strategy proved complementary to Washington's.

Indeed, Phase One of the geoeconomic era should be seen as two parts. In the first part, the U.S. priority was the rebuilding of Japan and consolidation of the U.S. relationship with Japan. Japan's economic success stabilized Japanese politics, consolidated the rule of a pro-American party (the LDP) in Japan, and eliminated the risk that the Soviet Union could subvert Japan or pressure it into a pro-Soviet alignment. That in turn led to the second part of Phase One, in which Japanese investment, trade, and policy influence complemented U.S. policy, making maritime east Asia a spreading Asian Miracle economy; thereby stabilizing South Korea, Taiwan, and much of Southeast Asia; and drawing the smaller countries of maritime east Asia into a pro-Western alignment. This era was defined by U.S.-Japanese geoeconomic collaboration and competition. Both the collaboration and the completion contributed to the great takeoff of maritime eastern Asia and its consolidation into the Western camp. Just as India's nominal neutrality could not obscure its pro-Soviet alignment, the nominal neutrality of Indonesia and ASEAN could not obscure that they were tied to the Western camp.

Ultimately the U.S. geoeconomic strategy, protected by the military from Soviet aggression, proved to be world history's most successful national strategy. It defeated the Soviet Union economically, built Japan into a formidable ally, stabilized Western Europe and consolidated the EU alliance with the U.S., seduced China into accepting the major U.S. global institutions and abandoning Maoist revolutionary ideology, stabilized the ASEAN countries, made Indonesia a regional leader, and ultimately deflated Maoist insurgencies everywhere in the world.

Phase Two

Sino-American spread of the Asian miracle

While the first phase of the postwar miracle was led by the U.S. and accelerated by a combination of collaboration and competition with Japan, the second phase of the miracle has been deepened and spread geographically by U.S.-China collaboration and competition.

After 1975, for domestic reasons Japan turned away from globalization and replaced proactive economic adjustment with protection of the interests of five major interest groups (agriculture, retail, property, construction and banking), which effectively controlled Japanese government policies. Through the early 1970s Japan emphasized globalization, seeking out best practice from everywhere in the world and adapting improved versions at home. (Quality control programs are one of many examples.) From the mid-1970s onward, LDP politicians turned inward, asserting that Japanese economic superiority was ensured by traditional Japanese cultural practices, a stance that supported the interests of the five great interest groups. Impeded further by a graying workforce, growth slowed and Japan's influence faded. China became the dynamo. As a crucial indicator of this shift, in the late 20th century the world's financial hubs were London, New York and Tokyo, whereas in the new century they are London, New York and Hong Kong, with Shanghai rising fast.

As with the U.S. and Japan, China's belated choice of a strategy giving priority to economics was a realist strategy based on domestic and international self-interest. As with the other Asian countries, China's decision to abandon Maoist revolutionary opposition to the Western order, and instead accommodate peacefully to that order, was not based on interdependence—initially there was none- - but on a realist strategy for the post-World War II era. In the new era, realist strategies had to be based on the new reality; Deng Xiaopng saw that his neighbors who were emphasizing economic strategies were leaving China behind.

Nor was China's new economic priority a product of soft economic thinkers dominating hard military thinkers. The initiators of the postwar geoeconomic strategies were all tough realists and mostly generals—Marshall, Eisenhower, Park Chung Hee, Chiang Kaishek and his son Jiang Jingguo, Lee Kwan Yew, Suharto, and Deng Xiaoping, along with Truman and tough-minded former Japanese militarists like Yoshida. These were realists for a new era; they understood that the game had changed. Western strategists, trained to pay exclusive attention to military and political efforts, have still largely failed to understand what their Asian counterparts figured out decades ago—and what Roosevelt, Truman, Marshall and Eisenhower grasped instinctively.

China largely fitted itself into the U.S/Bretton Woods paradigm. Until 2008 it saw the U.S. as the archetype of a successful economic system and adapted many aspects of the U.S. system outright. It joined the World Bank, IMF, ADB, WTO and supported them with funding and policies. While the U.S. participated more enthusiastically. China was much more open than Japan to foreign trade and foreign direct investment. It was much more willing than Japan to allow Western companies to buy out significant local companies, and it was far more welcoming of foreign investment than South Korea and the Philippines. While Western countries rightly complain about lack of access to China's services sector, as this is written the foreign share of bank assets in China is almost twice the foreign share of bank assets in Japan. Unlike Tokyo and Seoul, Chinese cities are full of Buicks and Volkswagens. Above all, China joined accepted WTO dispute jurisdiction. It supported system stability in the Asian Crisis, the Global Financial Crisis, and more generally in the gradual way that, from the late 1980s onward, it adapted its currency to market pressures.

It has become common in the West, particularly in Washington DC, to characterize China as an outsider undermining the system because it games the system in some ways and has built new institutions like the Asia Infrastructure Investment Bank (AIIB) that are minor variations on the Bretton Woods institutions. But Washington games the system too, for instance in its use of patently distorted price bases for anti-dumping measures and in the Trump administration's use of national security justifications for tariffs on steel and other imports where there is no national security risk whatsoever. The ways in which China's economic structure differs from the U.S. are very similar to the ways that Japan's and South Korea's differed from America's a generation ago. China accepted, and with limited exceptions honored, WTO restrictions far more onerous than any other country, and it had to undertake heroic, unprecedented industrial and social adjustments because of those conditions. China's variant development banks are deliberately constructed to be largely compatible with the Bretton Woods system. The leader of the AIIB was chosen in large part because he is an enthusiastic alumnus of the World Bank and the ADB. The AIIB and the New Development Bank pointedly do their business in U.S. dollars, not RMB. The reality is that Washington's successful post-World War II strategy seduced China into joining the system.

U.S.-China joint globalization transformed the global economic system for the better. In particular, it tipped the balance for six transformations that were long under way in the rich world but had no prior assurance of becoming global:

The *super-industrial economy* emerged. For the first time in human history, production of the goods most important to humanity, food, clothing, shoes, materials for shelter, and much else, moved from scarcity to surfeit. The distribution of everything remained imperfect, with local shortages even of food in parts of India and sub-Saharan Africa, but maldistribution does not negate the triumph of the production abundance.

Second, alongside the super-industrial economy came the *post-industrial economy*. This had been emerging in the advanced countries for a generation, but the global tipping point came in 2015 when services came to constitute 50.5 percent of China's economy. This signified not only a more prosperous and technologically advanced world but also one where the world's workers were being freed from the manual labor that for millennia has doomed most human beings to early decrepitude. While U.S. politicians, dependent on industrial labor unions, deprecate the shift to services, this has greatly improved human dignity.

Third, prosperity globalized—imperfectly but to a far greater extent than ever before. Latin America no longer led the world down in financial crises. Sub-Saharan Africa went from negligible growth rates to a comparatively miraculous six percent—subject to cyclical variations. Relative prosperity drastically reduced the appeal of aspiring Che Guevaras in Latin America and limited radical Islam's spread in Africa. Alongside U.S.-created development institutions, Chinese demand, infrastructure-building, and conspicuous success based on its shift to a relatively open, market-oriented economy enabled this.

Likewise the U.S.-China dynamo produced, fourth, a *globally integrated economy*. China's openness to foreign investment helped proliferate intricate supply chains of a couple dozen countries to make a computer and dozens more to make an airplane. Notwithstanding difficult adjustments, this meant that nearly every segment of the human population could contribute according to its comparative advantage and almost the entire human population could benefit from lower costs and higher quality.

Fifth, the U.S.-China dynamo tipped the world into an *environmentally conscious economy*. Here again the more advanced parts of humanity had been moving in this direction ever since London found itself crippled by the London fog, rivers caught fire in America in the 1960s, and Japan suffered its four big environmental scandals in 1970. However, as late as 2010 the bulk of humanity was ignoring environmental degradation and climate change and until then China was the biggest problem. The tipping point came with the emergence of Chinese environmental consciousness in the current decade. Now China, digging out of a deep hole, is the leader in every form of green energy, the world's largest investor in environmental amelioration and cleaner cars, and a powerful advocate of policies to curtail climate change.

Sixth this era of Sino-American globalization began a radical *reduction in global inequality*. While globalization enhanced inequality inside many countries, an era where most poor countries are growing far faster than most rich countries belies dependency theorists' caricature of an increasingly unequal world. Notwithstanding severe problems, this is a world of greater individual and national dignity.

The results of Japanese-American globalization and then Sino-American globalization were an extended period of domestic political stabilization in eastern Asia, big power peace in Pacific Asia, the emergence of Japan and China as global powers, the emergence of South Korea and Indonesia as major regional powers, the collapse of Leninist insurgencies globally, the slowed spread and sometimes reduction of jihadism in key areas, and the gradual spread of many of the Asian miracle economic benefits to other parts of the world, particularly to raw material producers.

As Indonesia was archetype of Japanese-American economic success and political stabilization, Bangladesh became the archetype of Sino-American successes. When Bangladesh was created, everyone knew that this new country was hopeless. It suffered a horrific famine in 1974. Limited raw materials, limited education, a harsh natural environment, and overpopulation clearly doomed it to becoming a gigantic Somalia, a world-class source of radical jihadis. But as Hong Kong's success filled its quotas under the Multifiber Arrangement, and then China's success raised Chinese wages, Bangladesh's economy got the benefits of the Sino-

American system. Bangladesh's emergence as the world's second largest textile producer saved the country from becoming a failed state and precluded what could have become the greatest fount of radical jihadis.

Likewise, in Africa, Ethiopia, once seemingly hopeless, with mass starvation and six warring Leninist parties, recently enjoyed a period as the world's fastest growing economy. These developments in places like Bangladesh and Ethiopia seemed beyond imagination in the year 2000. The phase of parallel U.S.-Chinese development of the world economy, and the improving stability of many countries and many aspects of global politics, amplified the success of the great U.S. geoeconomic strategy. The stabilization of so many emerging countries saved the U.S. trillions of dollars of military expenditures. Continued spread of the benefits of Sino-American globalization could save trillions of dollars of future military expenditures in North Africa, the Middle East and Central Asia, but developments in the new century jeopardize those benefits.

The new era of global integration

The emergence of an era of global integration, noted above, has two phases. First came globalization of production, whereby supply chains became global, enabling Western countries to do the high value work and emerging countries to do less-skilled, less-lucrative work. In that phase, production flowed toward Asia and goods flowed back toward the U.S. and Europe. This globalization of production saw the advanced economies move out of lower-value-added manufacturing and into higher value-added manufacturing and services. The migration of low-value-added production of things like towels and cheap socks continued a process that had been evolving for generations; such products were initially made in the U.S. north, then in the U.S. south, then successively in Japan, the four tigers (South Korea, Taiwan, Hong Kong and Singapore), then other Southeast Asian countries, then China, and currently Bangladesh and Africa.

Because economic growth and structural change have been particularly rapid in the era of Sino-American globalization, adjustments have been stressful. Domestic political gamesmanship has exacerbated the stress. Manufacturing employment in the U.S. has declined steadily since 1947 as part of a global decline of manufacturing jobs that has recently been far more rapid in China than in the U.S. The shift out of manufacturing and into services is an inexorable trend analogous to the decline of farming jobs that occurred in earlier generations. In both cases, as shown by a dozen years of research, most of the decline was caused by technological and organizational efficiencies that reduced the need for manual labor. Only about one out of seven “lost” jobs is due to globalization and China is part of that globalization influence. Nonetheless it has served the interest of both parties to blame the manufacturing jobs “loss” on China rather than to undertake the arduous and expensive task of helping displaced workers into service industry jobs. In the decade-long Zhu Rongji era, China lost 45 million manufacturing jobs, while the largest U.S. loss in a decade has been about 3 million, but China was much more proactive in helping its workers.

The other form of gamesmanship has been a focus on trade deficits. A shift of manufacturing facilities to poorer countries entails a trade deficit, but that deficit does not measure the respective economic costs and benefits. The proper measure is “value added.” For instance, on the trade balance a sport coat exported from China to the U.S. shows up as a deficit for the U.S. of $450. But a study by Patrick Low, a Swiss former chief economist of the WTO, of that same sport coat revealed that only 5% of the benefits went to China, basically for sewing the sport coat together, while 84% of the benefits went to the U.S., mostly for designing the coat, financing it, marketing it, and pocketing all of the profits.

Importantly, the phase of globalization of production is largely in the past, although most current Western policies respond to that nearly obsolescent trend. The emergent second phase is globalization of consumption, in which Asia is becoming the center of gravity of global consumption. The natural outcome of this phase is disappearance of structural trade Western deficits and emergence of a highly complex division of labor for production rather than a one-way migration of production to Asia. China is already the world’s largest purchaser of luxury goods. Movies, art, clothing styles, music and much else are already adapting to this emerging era. Protectionist Western politicians will sacrifice their economies’ future in the era when goods flow both ways across the Pacific; no global company will be able to survive without full access to Asian markets.

Losing the thread

The Japanese-American and Sino-American phases of what is now a global economic miracle have been followed by important backsliding to traditional zero-sum geopolitical conflict. The basic postwar conditions remain—the possibility for unusually high growth stabilizing countries and creating a mutually beneficial international environment, along with increasingly destructive military technology that makes most traditional political-military contests lose-lose. But domestic politics has caused backsliding to traditional geopolitics.

Throughout the region, the fear of social collapse, and the fear of Soviet power, that had fueled the obsession with economic growth gave way to hubris, then complacency and grasping for other paths to national dignity and influence.

In Japan, five traditional interest groups associated with the governing LDP essentially captured control of the government, squandering and mis-allocating the country's resources in their interest. For instance, driven by the construction lobby, Japan, the size of California, routinely spent more on infrastructure construction than the entire U.S. The power of the construction lobby enabled the nuclear industry to build the Fukushima power plants in an inappropriate location, to inappropriate standards, and in violation of national laws. The miracle economy built by globalized search for best practice turned inward. Protectionism inhibited entrepreneurship. Because of protectionism, Japan's world-beating consumer electronics companies became "Galapagos sectors," supplanted by Apple, Samsung, and upstarts from the more open and competitive Chinese economy. Hence growth slowed from 1975 onward, later worsened by demographic decline.

This left Japan adrift, its only coherent strategy for identity and prestige provided by right-wing nationalists who advocated re-writing Japan's history of the 1930s and 1940s, gradually rebuilding military power, and moving Japan's political practices and constitution back in the direction of the more authoritarian pre-war period. The government paid a hefty price domestically and in relations with neighbors for attempting to rewrite history. It overrode a strong majority of its citizens in rebuilding its military, and its "reinterpretation" of pacifist Article 9 of the Constitution went beyond reinterpretation to clear violation.

This Japanese government refused all normal compromises in territorial disputes, adopted a particularly tough and uncompromising position in East China Sea negotiations with China, claimed twice as much of the sea as much larger China, and initiated the practice of building an artificial island on a tiny rock (Okinotori-shima) thousands of miles from the homeland and claiming vast territorial waters around that "island." China later emulated these practices. Befuddled by an extreme right-wing effort to mobilize its base through a fund-raising to buy the Senkaku/Diaoyu islands, in 2012 an inexperienced but nationalistic DPJ government broke the 40-year-old understanding with China over the islands and, defying U.S. objections, purchased the islands from their private owner. Although that purchase does not change the islands' legal status, Japanese government ownership ensured a dangerous, gratuitous dispute with China.

U.S. policy evolved even more dramatically. In the late 20th century, Congress ruthlessly squeezed down economic and diplomatic budgets while funding the military relatively generously. The kinds of institution-building programs that had made Indonesia a success phased down. Because of tighter budget constraints, the State Department had to deny foreign service officers the extensive training in local politics, history, economics and culture that it earlier provided. Then, under President George W. Bush, all top foreign policy officials—Secretary of State Colin Powell, Deputy Secretary of State Richard Armitage, National Security Advisor Condoleezza Rice, and overall foreign policy czar Vice President Dick Cheney (a former Secretary of Defense)—had predominantly defense-oriented backgrounds. Overemphasis on the military continued under Obama and became caricatured under Trump's proposals to eliminate aid programs and cut the State Department budget by over 30 percent while raising military budgets.

The truncation of national strategy into military strategy, supplemented at the margin by largely ineffectual economic sanctions, occurred almost without notice, despite the anguished pleas of strategic minds like Chas Freeman. Political scientists refused to address the historic transformation of the strategic payoff matrix of the 1950s—as if nothing had changed since World War II. Mention the strategic role of economics and most political scientists will dismiss you as an advocate of the (allegedly) discredited theory that economic interdependence brings peace. (World War I occurred after a period of great economic interdependence.) The possibility of realist strategies with economics as their core threatens, unacceptably, to break an academic silo.

China has also recently deviated from its successful economics-focused national strategy. Its priority for claims of maritime territorial sovereignty constitute a sharp break with its earlier policy of settling most land territory conflicts to the satisfaction of its neighbors. Its military buildup, while limited as a share of the national budget, has been so rapid that it has unsettled the U.S. and most of China's maritime neighbors. Its maritime territorial assertions have not been different in kind from its neighbors, but China's scale and newly powerful military capability have induced a fearful reaction from most neighbors. Even if China's behavior is not different in kind from the Philippines, when a big power behaves like a small power the results can be destabilizing. China's disregard, at least so far, of the equally valid claims of its neighbors, combined with the Foreign Minister's assertion that small countries should know their place in dealing with a big country, seems to demonstrate an arrogant big-power mentality. Its use of economic warfare (weaponizing constraints on rare earths exports to Japan, imports of bananas from the Philippines, constraints on South Korean businesses in China, and allocations of tourists to several countries) indicate a belief, probably misguided, that neighboring countries can be forced by economic sanctions to compromise their sovereignty.

In all three cases, the reason for deviation has not been primarily a national strategy calculation but rather a byproduct of domestic politics. In Japan the capture of national politics by reactionary economic interests rendered an economics-based national strategy impossible. In the U.S., military industry had an army of lobbyists that State and AID lacked. In China, domestic politics has forced national leaders to accede to nationalist demands from the military and to consolidate their positions by enhancing populist nationalism. Hu Jintao, a weak leader exceptionally vulnerable to accusations of being inexperienced in military affairs and soft on national security, had to act tough. As I have shown in my recent book, **China's Crisis of Success**, Xi Jinping's economic reform and anti-corruption campaigns antagonize nearly every important interest group in China and thereby make military support vital to his survival in office.

A single anecdote can provide a microcosm of the Chinese domestic political dilemma. In late 2004, over lunch, China's intelligence chief expressed concern about a repetition of the near-debacle that occurred in 2001 when a Chinese fighter jet and a U.S. spy plane collided over Hainan Island. Because the collision occurred at a time when the new Bush administration had just begun to staff its foreign policy leadership, the Chinese didn't know who would be making policy. Consequently they found it difficult to manage the crisis. We agreed that it was important to avert recurrence of such a possibility at the beginning of the second Bush administration and therefore, with White House encouragement, we organized a RAND conference in Washington DC where leading Chinese foreign policy thinkers could meet all the key Asia decision makers—NSC, National Intelligence Council, State, Treasury, USTR...

At the White House, NSC China Director Dennis Wilder criticized the imminent Anti-Secession Law, which would legalize military action against Taiwan if it moved toward independence. A Shanghai-based expert interrupted, saying, okay, Dennis, but I wrote the Anti-Secession Law, so let me tell you what's really happening. Your country is not the only country that has domestic politics. Our leaders are under pressure for being too soft. We have to pass this law to address that problem. You know what our policies toward Taiwan have always been; this new law doesn't change anything. After we have passed that symbolic law, we will do the positive things you are asking. And that is exactly what happened.

The major countries misinterpreted their counterparts' shifts as strategic assertiveness. The U.S. saw the Anti-Secession Law as "internationally" aggressive, whereas it was domestically defensive. Chinese leaders and scholars saw the U.S. pivot to Asia as an aggressive containment policy toward China. On the contrary, it was intended as a rational rebalancing of leadership attention, diplomatic engagement and minor military shifts back to regional priorities more appropriate to the weight of actual U.S. interests. Japanese leaders saw their revisionist history as a domestic political game, no other country's business, but South Korea and China interpreted it as a threatening rejustification of Japanese imperial ambitions. In all cases the decisions were relatively marginal, and in all cases they actually detracted from the countries' hitherto successful strategies, but such issues accumulated to the point where a zero-sum military logic started to displace mutually beneficial economic priorities.

Phase Three? The Belt and Road Initiative

Most of the world experienced increased prosperity, domestic stability and relative international peace due to the Japanese-American and Sino-American phases of the great global economic takeoff. However, important, interconnected regions of the world--Central Asia, the Middle East, much of North Africa, and pieces of sub-Saharan Africa—remained relatively isolated from these benefits. Much like Indonesia in 1965, Bangladesh after 1971, and Ethiopia in famine, these areas have vast numbers of impoverished, resentful people susceptible to violent radicalism.

As with radical jihadist and Maoist movements in Southeast Asia in the 1960s, these movements frequently require military containment and military suppression, but military suppression alone at best causes them to morph into another form and often spreads the conflicts. Jihadism in Indonesia, just as fierce in its time as much Middle East jihadism today, succumbed to economic development. Maoism, a far greater threat to global stability, is permanently dead, not because of military suppression but because Chinese families now have a stake in society; in addition to adequate food, shelter and education, a higher proportion of Chinese families now own their own homes than in virtually any other country.

Those who view as soft and ineffectual, for the Middle East, policies that have worked everywhere else in the world, including Islamic cultures, from South Korea to Indonesia to Bangladesh to Ethiopia, have a difficult case to make. Those who believe in the efficacy of current military suppression efforts, in the absence of a broader economic and social strategy, ignore the entire experience of the early 21st century. The most powerful military in world history wins battle after battle but can't win its wars. Notably, top generals have outspokenly advocated stronger diplomatic and economic arms. The problem is not the military; it is the lack of a broader strategy and the unwillingness of the U.S. Congress to fund anything other than the military.

China's Belt and Road Initiative (BRI), formerly called One Belt One Road, is, in broad vision, the logical extension of the policy that began with Roosevelt/Truman and Eisenhower and continued through a period of fruitful U.S.-Japan and then U.S.-China collaboration. The logic is the same: create institutions that fund infrastructure, promote common standards, and resolve conflicts to facilitate economic progress. To the extent it succeeds, ideologies of various kinds will recede in favor cultivating a stake for one's family. Leaders will discover, as those in South Korea, Taiwan, Singapore, Indonesia and China did, that the path to national stability, national security, national prestige, and personal security in office is primarily economic. Their national choice is whether to be North Korea or South Korea; those who choose the South Korean path will triumph.

Such a characterization of BRI meets strong objections. BRI isn't built on democratic ideals. Well, South Korea, Taiwan, Indonesia and Singapore didn't find growth, stability and security in their early decades through democracy. Their early economic and social success under authoritarian leaders made later democracy possible. Emerging democracies like the Philippines (the all-time pinnacle of U.S. democracy-building efforts) belie the argument that democracy enables growth in very poor countries. Democratic India and sometimes democratic Thailand have never benefited their people the way authoritarian South Korea, Taiwan, Hong Kong and Singapore did. The number of Chinese families who own homes is twice the number of Indian families who have access to a toilet. The defeat of Maoism in Asia shows that democracy is not necessary to achieve the principal benefits of economic growth, ideological deflation, and improved national and regional stability. The U.S. Cold War victory required pragmatism, and success in stabilizing the residual regions of the globe requires pragmatism. (When, at a higher level of development, the center of gravity of society is an educated middle class society there is a better case that democracy is optimal for growth, stability and social welfare, although several Western societies are now stressing that proposition.)

A second objection is that China is designing BRI to serve its own interests, such as providing work to its state enterprises and outlets for some of its overproduction. That is unobjectionable if BRI also accomplishes the broader goals. U.S. Cold War and post-Cold War policies were loaded with U.S. interests too, but they served the world well.

Surely, however, success of such policies will enhance Chinese power and prestige. Yes, they will, and that is not a bad thing if they help resolve the explosion of war in these crucial regions and the attendant global expansion of terrorism. Unlike in the purely military sphere, a Chinese gain is not automatically a U.S. loss. The institutions China is building, like the AIIB, are specifically designed to dovetail with the Bretton Woods institutions. (The initial U.S. campaign against the AIIB, based on the assumption that it was not designed to high standards, is now universally recognized as an embarrassing gaffe. By treating BRI as an effort to undermine or overthrow the Western order and Western standards, the U.S. is now risking repetition of that gaffe on a gigantic scale.) Yes, through BRI China will influence the evolution of global economic institutions, but Washington must come to terms with the fact that China will, one way or another, influence the evolution of global economic institutions. If the U.S. Congress had acknowledged this and accepted reform of World Bank and IMF governance earlier, the Bretton Woods institutions would have ended up relatively far more influential than they will be when China finishes building what it intends to be much better-capitalized institutions.

Washington risks drastic loss of influence if the Congress and parts of the executive branch continue to be so hostile to China’s having some increased influence that the rest of the world perceives the U.S. as power-hungry to the exclusion of broader interests. That was the result of the Congress blocking enhanced capital and governance reform of the IMF and World Bank, and that will be the result if Washington shuns the BRI without providing internationally accepted justification. Even Japan’s Prime Minister Abe, no fan of Chinese power, is expressing interest in BRI. An imminent EU-China trade agreement and acceptance of Chinese purchase of key ports and other facilities demonstrate European willingness to collaborate up to a point with China. If the U.S. opposes BRI, the AIIB debacle could be just a precursor of much broader isolation. If the U.S. stands on the sideline, others will set the standards.

Conversely, much as China will deny it, eventually there is a military component to successful implementation of BRI. Pakistan is already teaching that lesson. Any gains will be resented, sabotaged and attacked by jihadist and reactionary parties, just as Maoists attacked the governments in every Asian country that was stabilizing itself through Western-led development efforts. The U.S. can collaborate with China, potentially taking a lead military role, or it can watch while China eventually addresses the problem of violent efforts to disrupt its development programs.

The potentially fatal problem of the BRI is different: flawed implementation of the stirring vision could create a mess. It requires vast financial resources, but China is announcing many financially challenging plans at a time of slowing economic growth and increasing financial stringency. BRI is supposed to be a commercial project, not an aid program, but does anyone believe that it can find $46 billion of creditworthy projects in Pakistan? Although such numbers are to be spread over a decade, leading Chinese economists believe half of the money will become involuntary donations. If BRI becomes a cover for uneconomic military-related projects, economic benefits may be diluted and international resistance enhanced. China's leaders expect the state enterprises to play major roles in BRI projects, but lagging state enterprise reform could mean that they cannot finance or complete their tasks. BRI is in many ways led by state enterprises so anxious to do deals that they can be as predatory as Western corporations once were in Africa. China's heightened territorial disputes with its neighbors may lead them to resist cooperation; already, railroad projects in several countries confront geopolitical concerns. Almost all of the countries that were principal targets of the Bretton Woods development program felt that the U.S. was supporting their sovereignty, but almost all of China's neighbors from Korea and Japan around to India feel that China is challenging their sovereignty; that could inhibit economic cooperation and curtail China's geopolitical leadership. Likewise, the current Chinese administration's herding of Muslim Uighurs into reeducation camps could alienate Muslims in many of the BRI target countries to an extent that inhibits economic collaboration. Recent Chinese efforts to use the overseas Chinese to influence local politics are antagonizing the host countries, especially Australia and New Zealand. Hubris could sever the belts and roads. To make its grand BRI vision succeed, China must make difficult choices that it has so far refused to face.

It is not in the U.S. interest for BRI to fail. But the U.S. would be much better off if BRI became a joint effort with China or a parallel competitive effort engaging the U.S., EU, and Japan as well as China. There are some positive developments. Japan has indicated interest in collaborating with BRI and at the same time it is regularly defeating China in the competition to build regional power systems. Both the collaboration and the competition facilitate successful development. Washington has indicated that it will compete by reintroducing some economic programs, but so far those efforts are small and reactive and lack a broader strategic vision.

The U.S. must restore the vital role of economics in its hitherto successful national strategy. It must recognize that the BRI vision is a logical extension of seven decades of successful U.S. policy. It must swallow hard and accept that China is going to have a powerful influence over the future of global economic institutions; it must channel rather than resist the tide. While China will benefit greatly from articulating the vision, BRI is ultimately a variation on a U.S. vision and the benefits of success to the U.S. and EU are potentially worth trillions of dollars of saved national security expenses and many lives as countries become less susceptible to terrorism and civil war. The strictly economic benefits will be proportional to the degree of national engagement and to the efficiency of the companies involved; U.S., EU and Japanese companies would have enormous advantages in most areas and would benefit from Chinese infrastructure development. Competitive engagement will force BRI to become more disciplined in supporting other countries' development.

Success of the BRI vision would, over several decades, resolve the most expensive and divisive problems the U.S. and its allies face today. Failure would mean explosive spread of jihadism despite endless U.S. efforts at military suppression. Failure of the U.S. to engage will enable China to turn BRI into the mechanism of a hierarchical Sinocentric Eurasia. The lesson of influence in Africa is already clear: when China engages four dozen African leaders in a predominantly shared development vision, while the U.S. addresses Africa mainly with Africa Command and Seal teams, China wins. The national interest of the U.S. is to work with its allies and with China to shape the BRI vision and to make it successful. There is no guarantee that it will overcome the challenges noted above. There is no guarantee that China and the West will not ultimately part ways over some unresolvable conflict. What enhances the prospects of the proposal is that all the principals have an overwhelming interest in a successful outcome. Fate will favor countries and realists who recognize that post-World War II national strategies must be built around a core economic strategy that entices all the powers with mutual benefits. It will degrade the stature of countries that define their strategies with a zero-sum military mentality.

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