



ASIA PAPER SERIES

POWER SHIFT: HOW THE WEST CAN ADAPT AND THRIVE IN AN ASIAN CENTURY

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American protection produced a stable security environment that allowed its allies to concentrate on internal reconstruction, economic growth, and technical innovation.

Without a doubt, the Asian miracle has been owed greatly to the preponderance of power that the United States enjoyed during the postwar period. This dominance created a distinctive international order in Europe and Asia, which allowed the regional states to emerge from the devastation of the Second World War into the success stories that they are today. Although enlightened elites in these countries certainly contributed to this achievement through both their conscious pursuit of growth-maximizing economic strategies and their investment in appropriate national institutions, their effectiveness ultimately derived from the two complementary benefits provided by superior American power—assured security and assured markets—which when synergized had explosive systemic effects.

The United States provided assured security to its Asian and European partners through complex alliances which, despite their differences, delivered certain common dividends: Washington guaranteed the security of its smaller partners and thus enabled them to mitigate the most acute tradeoffs between guns and butter within each country while simultaneously avoiding the destructive security competition that might have otherwise arisen between them. These gains, consequently, permitted the alliances to successfully deter common external threats such as the Soviet Union (and initially China as well).

While American protection thus produced a stable security environment that allowed its allies to concentrate on internal reconstruction, economic growth, and technical innovation, its global economic policies only magnified the success of these efforts. By embedding the massive aid offered to the allies within an asymmetrically open international trading order, Washington permitted its partners to enjoy the gains flowing from continued access to America's open markets, vast capital, and superior technology, despite their maintaining more closed economic systems at home.

The virtuous interaction of assured security and assured markets spurred the growth of America's European and Asian partners. This outcome was clearly beneficial because it meant that America's friends were becoming stronger faster and this expansion in capability advanced the larger U.S. geopolitical objective of containing the Soviet Union and the Communist bloc more generally. In retrospect, this grand strategy succeeded brilliantly: it accelerated the eventual collapse of the Soviet Union while reinvigorating America's allies and important neutral states. But it also began to produce another less desirable effect over time—the *relative* decline of American power—which was politically tolerable only because the rapidly growing European and Asian nations were all American partners whose growth posed no serious security threat to the United States. The first iteration of the Asian miracle thus had an unambiguously happy ending.

As this success matured over time, the United States began in the waning years of the Cold War to promote an even more consequential expansion of the open international economic system by supporting China's accession to the World Trade Organization (WTO). Just as was the case with other American allies in the first wave of the Asian miracle, enlightened internal decisions now made by the Chinese leadership—most importantly, Deng Xiaoping's decision to liberalize the national economy from 1978 onwards—combined with the benefits offered by the U.S.-led international trading order to provoke a runaway expansion of growth in China—a continuing saga that *The Economist* has described as “the most dynamic burst of wealth creation in human history.” This development, along with India's post-1991 economic achievements, has been the coruscating feature of the continuing Asian success story, and it is likely that Chinese and Indian economic expansion will remain vital drivers of global economic growth and the key components sustaining the ongoing Asian miracle for the foreseeable future.

Although China was never a U.S. ally of the kind that Germany, Japan, and South Korea have been in the postwar era, the United States nonetheless encouraged Beijing's integration into the international economy. This policy was shaped in part by the calculation that Chinese rivalry with the Soviet Union made it a suitable target for American support, while its deep, and by many measures continuing, developmental challenges made bolstering its economic growth through enhanced access to international, but especially American, markets a relatively low-risk proposition for the United States. The fact that China remained an unpleasant autocratic system certainly weighed on the consciousness of many American policymakers, but, between the salivating prospects of increased access to the large Chinese market and the enduring hopes that free trade could create even within an authoritarian regime new domestic constituencies with vested interests in peace, Washington's liberal instincts ultimately prevailed.

This American wager has been unquestionably successful in economic terms. Since 1978, China's export-driven growth has produced incredibly high average real growth rates in excess of 9 percent annually for over 30 years. This phenomenal performance has lifted millions of Chinese out of poverty, contributed indispensably to wider Asian economic growth, created a steady source of finance for America's humongous trade and budget deficits, and congealed a dense set of new manufacturing, trading, and financial linkages throughout the Asian continent with China as its central hub. This enveloping regionalism has contributed to raising Asia's share of the global output from the 16 percent that it was in 1950 to the 34 percent recorded in 1998. And it is this share—projected to rise to 44 percent by 2030 when the Asian economy will be larger than that of Europe and America combined—which drives all the current expectations that the coming era will be an Asian century.

China's participation in the U.S.-led open economic order, therefore, has generated a second iteration of the Asian miracle. But unlike the first wave of success, when the political necessity of containing Soviet expansion comported perfectly with the economic desirability of strengthening allies and neutrals (if necessary at American expense), the gains embodied by the prospective rise of Asia appear to be more fraught. This is because a free trade system that promotes high, but not necessarily uniform or proportionate, growth among states poses no dangers so long as all the participants in that system are either allies or neutrals who pose no security threats to one another. American adversaries during the Cold War were never part of the original liberal order and, hence, the political strategy of containment of rivals and the economic strategy of free trade among partners dovetailed perfectly. In fact, the competition between the U.S.- and Soviet-led alliances during this period was "easy" to manage because neither side was constrained by any strong forms of economic interdependence. The two blocs neither traded with each other nor were substantially reliant on one another for capital, technology, merchandise, or raw materials. Both sides indeed went to great lengths to curtail their dependence on their adversaries in order to enhance their ability to protect their geopolitical interests.

Exactly the opposite appears to be the case today in the Asia-Pacific region—and, consequently, the emerging iteration of the open trading system now referred to as "globalization" could bring the traditional tensions between politics and economics to the fore again. China, in particular, continues to prosper precisely because of its participation in the trading order managed by Washington, yet remains enmeshed in a variety of disputes with its major Asian rivals (as well as other smaller neighbors), while increasingly posing a serious and persistent military threat to the principal guardian of that order, America itself. Although it is not certain today that Beijing will replace Moscow as Washington's central geopolitical adversary, it

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remains a dangerous challenger in several issue-areas, and many worry that as it grows, the threat it poses to U.S. interests will grow too. Thus, because China is feared—however politely—both in Asia and in the United States as a potential threat to the existing order, Washington already finds itself in the awkward position of having to sustain an economic system that although producing great benefits for itself and others, also has the simultaneous effect of fueling the growth of what could be its most significant geopolitical rival over time.

China recognizes this conundrum, but it has a vested interest in sustaining the economic order that it benefits from for as long as possible. Consequently, it has sought to emphasize both through various ideological formulations and through consciously pacific policies that it seeks nothing other than a “peaceful rise;” however, the gnawing uncertainty harbored in Asia today is not that China may not rise peacefully in the prospective future, but rather that it may not remain entirely peaceful once it has completely risen. The fundamental apprehension embedded in the second Asian miracle for the United States and its allies in the West and East more generally, therefore, is whether Beijing will continue to exploit the benefits of participating in the current American-led globalization to improve its power-political capabilities to the point where it could eventually challenge the United States itself either in the Asia-Pacific or in regards to control over the international system.

This dilemma is novel in the postwar context and it brooks no easy solutions—in part because Chinese leaders themselves do not know “today” what their own nation’s objectives and behaviors would be in some metaphorical, long-run “tomorrow.” Yet the predicament persists, and although its most virulent incarnation has been averted because China is consciously pursuing (mostly) good neighborly policies presently, the fear that Beijing might be tempted to exercise its growing power in more assertive ways that are disadvantageous to others—in the future when relative American

power is further diminished—casts a shadow of discomfort across Asia, even if various national elites are more or less circumspect in expressing it.

How should the United States, as the traditional security guarantor and the principal underwriter of Asian success, respond to the quandary embodied by China in the emerging economic order? Clearly, attempting to constrain China’s participation in the open economic system in order to restrict its growth is not a sensible solution since such a policy promises a reduction in America’s own prosperity and, by implication, a diminution of its own national power. The prospects of successfully implementing any such restrictive strategy are further compromised by the fact that today China remains one of Washington’s most important creditors; almost no other country in the region and beyond is likely to diminish its own trade with China (even if the United States does) because of the benefits derived from such interactions; and, finally, individual agents in Asia, Europe, and the United States will continue to reach across national boundaries to trade with their Chinese counterparts because of the useful gains in utility, profit, and welfare that accrue, even if Washington and other capitals perceive strategic benefits in constraining economic intercourse with Beijing.

Consequently, it is not surprising to find, throughout the Asia-Pacific and beyond, the paradoxical outcome of deepening economic interdependence with China, despite the uneasy coexistence of such interdependence with latent fears about Beijing’s long-term aims and ambitions. Such behavior on the part of various entities in Asia and in the United States, at the very least, suggests that whatever the uncertainties about eventual Chinese objectives may be, there is still sufficient confidence that U.S. power will not be fundamentally undermined by the current pattern of globalization and that it will therefore continue to be the ultimate security guarantor even if Chinese behaviors were to change in adverse directions at some point in the future.

It is, of course, entirely possible that even if general confidence in America's ability to offer strategic protection were to steadily deteriorate over time, the incentives to continue trading with China may not entirely abate because private entities could be driven entirely by personal gains despite their destabilizing effect on the larger balance of power. If such a point is reached, it may well be too late for Washington and its Asian allies to protect their interests effectively *vis-à-vis* an increasingly dominant Beijing. In such circumstances, different possibilities could materialize: first, globalization itself atrophies because a weakening United States progressively reduces its contribution toward producing the public goods necessary to make private international transactions possible; second, globalization is rescued thanks to an increase in compensating Chinese contributions aimed at maintaining the production of these collective goods, but at the cost of enshrining a new international security and economic order dominated by Beijing; third, globalization is contested with both the United States and its competitors alternately deepening and reducing their support for an open global economy depending on whether it advances or undermines their larger security and commercial interests at any given point in time, a process that eventually leads either to the ultimate destruction of globalization or its reincarnation in more modest forms such as competitive trading blocs. Because none of these three outcomes strengthen the vitality of liberal democratic states, American grand strategy ought to focus on improving the gains from trade accruing to the nation at large in order to prevent any fundamental enervation of its core strategic capacity.

Toward this end, the United States should pursue the twin objectives of deepening globalization while simultaneously investing in preserving its extant military superiority. The first will ensure that the prosperity of all states, China and the United States included, continues to grow indefinitely and in ways that minimize the incentives for predatory Chinese behaviors, while the latter ensures that

all of Beijing's trading partners can continue to do business with China without ever succumbing to the fear that the advantages accruing to Beijing may one day be used to undermine their physical security and political autonomy. Pursuing these twin objectives would permit the West to thrive in the coming era of Asian power even though the structural characteristics of the second Asian miracle are considerably different from those of the first. To mitigate the inherent dilemmas embedded in the prospective Asian century, the United States and the West more generally should therefore pursue the following three policies.

First, all American friends and allies ought to purposefully deepen their existing *civilian* trade with China and with one another. Deepening interdependence provides the best opportunity for all to increase economic growth and to meet the wealth and welfare goals desired. Expanding this "trade possibility frontier" will require all partners to carefully contain the protectionist propensities that invariably surface because of either state or societal interests, especially in times of economic distress. In the contemporary context, it would necessitate foregoing additional trade restrictions while concluding at the earliest the current Doha development round before moving on, hopefully, to a further liberalization in services and, eventually, movements of labor. Increasing Western trade with key Asian states is also critical to mitigate the potentially unfavorable geopolitical consequences of intra-Asian trade exceeding that with geographic outsiders. In this context, the Obama administration should move decisively to bring to fruition the U.S.-Korea Free Trade Agreement (FTA), the Trans-Pacific Strategic Economic Partnership Agreement, and the unfinished FTAs with Thailand and Malaysia, while beginning negotiations on a U.S.-Taiwan and a U.S.-India FTA en route to the longer-term goal of creating a unified U.S.-Asia-Pacific free trade area. Structural changes in managing the existing global economic system are overdue as well, including adjusting the current framework of administration and representation

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in oversight institutions, such as the International Monetary Fund, and other specialized bodies, such as the International Energy Agency. Concluding such adjustments will not be easy, but it offers the West the best opportunities to deepen Chinese (as well as other Asian) involvement in the current international economic regime, while reaping its gains to increase welfare at a national level.

Beyond these economic benefits, however, the political objective of strengthening interdependence must be to enmesh China into becoming a “trading state” *a fortiori* so that even as it progressively grows in power, it will see that its expanding ambitions are better served through internal development and growing external markets rather than any militarist alternative. While this process will simultaneously result in Beijing also being able to enmesh its neighbors and rivals—including the United States—more fully, the economic and political benefits that ensue from such expanded mutual enmeshment could help to mitigate the existing security dilemmas if all partners choose such gains over the alternative possibility of aggressive military competition.

The emphasis on expanding civilian, in contrast to military, trade also implies that the disagreements within the transatlantic alliance about continuing the arms embargo on China must be resolved. The central issue that needs to be appreciated by Washington’s European partners is not simply the fact that European arms (or military technology) sales to Beijing could put at risk American forces at a time when conflict with China is not an impossibility, but equally importantly could make the American task of guaranteeing global security far more hazardous, with serious risks to the continued success of globalization on which the common welfare of the Western partners depends. For this reason, the necessity for expanding civilian trade with China all around cannot carry over to defense technology commerce and cooperation. The prospect of liberalizing trade with China in regards to Western dual-use technologies offers

more hopeful possibilities; many of the current restrictions in this area are either anachronistic or counterproductive. They ought to be reviewed with an eye to protecting only technologies that are truly significant and must of necessity be frequently revised because of the rapidity of technical change. While such improvements are long overdue, the liberalization of even dual-use technologies should not be carried to the point where it could undermine the vital American obligation of guaranteeing Asian and global security, which provides important benefits to the European partners as well.

Second, the United States and its friends ought to seriously engage Beijing at multiple diplomatic levels, both bilaterally and multilaterally, even as they deepen the strategic relationships enjoyed among themselves as the enduring hedge in case expanding interdependence fails to yield the prosperity with peace sought over the long term. Continued engagement with China is critical not simply as a prophylactic aimed at warding off troubling Chinese actions in the future, but also, more importantly, as a means of integrating Beijing into the evolving international political order commensurate with China’s growing importance. The purpose of pursuing such integration is to give Beijing a stake in the current system so as to reduce its incentives to undermine that regime as China grows in power. It is possible, of course, that nothing would prevent either a wholesale or a piecemeal Chinese renovation of the existing order, once Beijing accumulates sufficient power relative to other key states. Despite this eventuality however, given the current benefits of interdependence, it remains in Western interests to postpone this prospect of systemic transformation for as long as possible.

Only a realistic and multifaceted engagement with China can advance this end, and this requires freeing Western diplomatic approaches toward China from the tyranny of single-issue politics. Although members of the democratic community

will continue to have concerns about Chinese actions, for example, in regards to human rights, political freedoms, the treatment of minorities, nonproliferation, military modernization, and the like, disagreements over such issues must be handled tactfully. Such an approach does not require the West to paper over what may be troublesome Chinese domestic, foreign, or strategic policies, nor to shy away from visible and public confrontations if egregious Chinese lapses demand it, but rather to ensure that all such responses are sensitive to context, proportionality, and effectiveness. Put simply, the goal of deepened political engagement with China ought to be encouraging it to stay committed to its goal of peaceful development both within and without. To the degree that such engagement requires creating new inter-societal linkages or new forums for bilateral and regional cooperation, these avenues should be explored. However, it is likely that the real impediment to integrating China into the international system more adequately today is not the lack of appropriate “architectures” as it is the pressures of competitive international politics, when deficiencies in policy or the inability to choose appropriately between difficult tradeoffs are not at issue.

Even as the efforts to engage China in such ways proceed apace, there is also great—and increasing—utility in members of the Western alliance, but especially the United States, deepening their ties with other key states along the Asia-Pacific rimland. Critical actors in this context include Japan, India, Indonesia, Singapore, Vietnam, and Australia. These initiatives should aim to provide increased strategic reassurance through enhanced partnership with each of these countries and to strengthen their national capabilities in order to increase their margins of protection *vis-à-vis* China (even as they deepen their own engagement with Beijing), while enabling them to more productively collaborate with the United States and with one another. Such efforts at inspiritment could quickly become counterproductive for Asian

stability, however, if they are not accompanied by deepening economic and political ties all around with Beijing. Since such linkages already exist, and show no signs of abating in the future, increased strategic collaboration with and between the critical centers of power on China’s periphery provides the necessary cushion that prevents tightened commercial interdependence from disrupting the delicate balance between economic gains and geopolitical risks.

Third, the United States in particular must strengthen its national economy if it wishes to thrive in the coming Asian century. This is true of its democratic partners as well. Simply stated, the success of the current wave of globalization, like the one that preceded it in the 19th century, is owed fundamentally to the existence of a hegemonic power. Since the end of the Second World War, American preponderance has underwritten many of the key components—from the dollar as a global reserve currency to the rules of the international order to the defense of the commons—which have made a successful open trading system possible. Should the American economy weaken inexorably over time, there is every likelihood that the current successful phase of globalization, although often assumed to be a permanent reality, could atrophy and eventually collapse. Mercifully, such dangers are neither immediate nor inevitable because the U.S. economy, whatever its current troubles, is not enervated by any terminal illness.

In fact, by the canons of contemporary growth accounting, the United States is better positioned relative to most other countries to sustain over the long term the high levels of capital accumulation, labor-force growth, and technological innovation necessary to maintain economic strength because of its size and natural resources, its demographic profile and access to immigration, its wealth and material well-being, its open economic and political systems, and its social and institutional adaptability. America’s chief weaknesses in this context are twofold: its problematic model of capital formation,

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which is as much a product of domestic choices as it is a consequence of larger international economic imbalances, and its dysfunctional national decision-making institutions, which although appearing to satisfy its founding fathers' objective of preventing tyranny have engendered a paralyzing inability to think strategically and act coherently. While the latter problem is something that must be overcome unilaterally, the former can be most effectively solved collaboratively, at least, if there is to be any orderly solution to the vexed problem of "global rebalancing." Both the transatlantic and Asian partners of the United States, not to mention China, have great stakes in a successful transition, but this will require all parties to either share the pain collectively or else risk a convulsive dénouement that imperils both globalization and the emerging Asian century.

Even as the United States and its partners hopefully work toward cooperative exits from the increasingly unsustainable current global codependency—where the United States propels world economic growth through continued consumption utilizing resources loaned by others—Washington also needs to pay attention to renewing its military power. Such a requirement may appear odd at first sight, given that the U.S. military remains superior to all others by many metrics of comparison. Yet, on closer examination, American military strength is hobbled by serious challenges including budgetary constraints, unacceptable weapons cost growth, rising personnel costs, strained procurement and research and development budgets, difficult force structure dilemmas, and wily asymmetric threats, all of which—if left unaddressed—could undermine the current security environment that sustains globalization. The best studies of the regional military balances in the Asia-Pacific, in fact, suggest an erosion of U.S. military superiority and, in particular, a diminishing capacity to protect the Asian allies in the face of rising Chinese power.

The importance of arresting these adverse trends cannot be understated. They directly engage the question of whether the Asian miracle can be sustained over the secular period (with all the resulting benefits for American and transatlantic prosperity) and without any compromises in the security and autonomy of America's regional allies and important neutrals (with all the concomitant gains for American and transatlantic interests). Addressing these challenges requires the United States and its democratic partners in the East and the West to think about defense research and development, weapons procurement, and technology flows in new and more creative ways. It also requires greater agreement on issues relating to the legitimacy of the use of force. Above all else, however, it requires a greater European appreciation of how U.S. military superiority contributes to protecting a secure and stable Asian geopolitical order that ultimately redounds to the common advantage of both sides of the Atlantic and why that dominance, accordingly, must be preserved indefinitely.

The emerging Asian century undoubtedly represents a great opportunity for sustaining global prosperity. Yet because this era will be fundamentally different from the first iteration of the Asian miracle, in that allies and competitors are now inextricably entwined in a dense web of transactions which increase absolute gains but unevenly, the United States and its partners face many more challenges in maintaining a stable geopolitical order. In such circumstances, the most effective strategy for Washington, as the leader of the transatlantic community, is not to retrench from its commitment to expanding the open economic system, but to maintain in good repair its own national power and its constituent military prowess in order to mitigate any tensions that may arise either regionally or globally between economic gains and international security.

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