Dr. Segal began by noting that the evening’s discussion was related to an article he had recently written with Rawi Abdelal for the Jan/Feb 2007 issue of *Foreign Affairs* which was entitled *Has Globalization Passed Its Peak?* The article started with the question: How should we proceed now? In general, Dr. Segal noted that he was uncomfortable with the generally accepted description of a now-flat world economy but that he also did not support the doomsayers who were expecting a collapse of the world economy. Instead he believed that the world would continue muddling through with a great deal of political friction and an increased pace of change.

Internationalization and Globalism

Internationalization involves the exchanges going on between individual states
- World trade should increase by a factor of 3 over the next few years
- Change in what people are interested in proceeds more slowly
  - So there may be a slowing of the exchange of goods, capital, and labor

If looking at only the US and China, one can see that both benefited from globalization
- However, beginning to see a backlash develop
- Look at the energy rush
  - Oil is a commodity
  - But the concept of merchantilism is back in China and Russia re oil

Two types of globalization
- *Ad hoc* – largely the way the US has done it especially when the US in the middle of the sector
  - Involves bilateral trade talks
  - Concept pushed along by banks and financial organizations
  - Tends to reinforce the US position
  - Sometimes helped by the WTO and sometimes not
  - Problem: this type of globalization does not hold much legitimacy in world

Many consider it the strong using force to get what they want from the weak
US is usually seen as the overwhelmingly strong actor in these relations
- Rules based – organized globalization
  - Concept pushed by France
  - Also involves NGOs such as WTO, IMF, OECD, EU and the rules they make
    - The EU has established the largest body of regulations and trade policies ever created
  - Beginning to see push back from the liberals over regulations on capital, trade and people

Capital
- At one time it was thought best not to have any capital controls
- Now switching back to more controls since the big Asian economic crisis of 1998
- Now there is more resistance about removing all the controls on capital flow

Trade
- The Doha Round of discussions has fallen apart but some low level talks continue
  - So may not be dead yet
  - Deng Xiaoping would have been in favor of this
    - But expected China to improve more than they have
    - Do not expect to see much progress here

People – immigration
- Immigration is not as big as what happened in the 1870-1914 period
  - Migrations then were mainly from Europe to the New World – Americas and Australia
- However, now developing physical walls to stop immigration albeit with different opinions within the US government on how to handle immigration
- In the EU this topic involves discussions on where Europe ends
  - Current view seems to be Poland is the edge
  - EU must endure disputes between old, established members and the needs of new member countries
    - There is discussion of a wall going up in Greece and Bulgaria
  - Europe wonders how many more people it can absorb from the Muslim world

Changes are most dramatic in the US and China
- US is pushing back about capital regulations
  - This is ironic since most of the regulations were first developed here
  - Example: Dubai Ports issue about who can own US ports
  - Now some calls for regulations that have more to do with national security
  - There is a fear that international investors will not want to invest in the US or US activities because of all the rules involved
- Situation: US owes China about $226B currently
  - Beginning to see bills in Congress to limit this
    - Perhaps taxes on items coming from China
Perhaps will want to look at China on a yearly basis again to see if it qualifies for most-favored-nation status
- May also call for agreements that also involve labor and environmental standards
- The real political debate is about globalization and insecurity within the middle class
  - While many jobs have been lost, many others have been made
    - But new jobs may not have the same level of benefits as lost ones
  - The overall perception is that America is losing out
    - Reality doesn’t matter
    - What people feel about the country’s situation is more important
  - Result: even the Democrats are thinking about such problems now
- In China, beginning to see discussions about whether China has really benefited from all of its openness
  - Mergers and acquisition laws developing
    - Government must review all agreements to ensure national security
    - Some sectors will get special treatment: mining, shipping, IT, etc.
    - Of note: some of these sectors are where the US is trying to compete
- China is beginning to worry about how it handles technical standards
  - China wants to be more than a place to manufacture goods
  - Currently, $4 of the price of a DVD goes to Europe or the US for intellectual property rights although made in China, China gets $1 per DVD
  - Now China is competing to win the development of a number of international standards so as to drive the technology and secure intellectual property rights
    - Includes standards related to DVDs, internet protocols,
    - Wants to break US/Europe stranglehold on such things
- China is also worried about the increasing inequality within the country
  - Western China no where near as developed as the coastline
  - Rural China not getting the benefits of globalization seen in the cities
  - Result: fear of social protests
    - Over 87,000 protests happened last year – all sizes
    - Number of protests have been growing
  - Hu and his government have been pressing for a “harmonious society”
    - May eliminate taxes for rural people
    - May send rural children to school for free
    - Few details yet

Energy Issues
- Oil is a commodity but gas needs a significant infrastructure
- Russia is using gas and oil to reassert its position as a world power
- Has been telling new countries: Congratulations on your revolution – Now you must start paying market prices for fuel since there will be no more subsidies
- China’s use of energy is not being done as an economist would do it
  - China is trying to get leverage in the oil fields
  - Thinking is that globalization might not be that good for China
    - Consider the problems possible involving oil passing through the Malacca Strait
What China is doing is more related to a Grand Strategy – does not make much economic sense

A future world of conflict?

- Broad view
  - Increase bi-lateral trade but this also increases tension
  - There is not likely to be a major war
  - Inequalities will push different elements in the society

- Technology is expected to grow at about the same pace
  - Countries used to be able to keep new technologies/inventions to themselves
    - Now all development is becoming intermixed
    - Cannot even be sure that all parts come from the same place
  - There is an on-going diffusion of capabilities
    - China’s defense sector is using off the shelf items
    - People will be moving in and out working for development laboratories
    - US used to pull in all the great young minds – no longer true
      - Now great minds return to home countries after education and experience to help development there
        - Bring home new ideas
        - May go back and forth a great deal
      Called the “New Argonauts”
    - US experience is especially useful in areas such as software engineering or systems integration

Access

- Foreign engineers and scientists will know a great deal about what goes into US defense equipment
- Advances useful to defense will likely start happening outside the US
  - Areas such as nanotechnologies, IT, etc.
- How will we know when something new has been developed elsewhere?
  - How do we handle these breakthroughs so that we can make use of them
- Lead times are getting shorter, giving less time to react

There may be little that the US can do about this

- A lot of this is just public relations
- Need better ways of explaining to the public about the costs of globalization
- US is still the only economy that can take advantage of all the changes
- Need to identify the best positions to have in order to take advantage of these changes
- US needs to be more supportive worldwide
- EU needs to make changes
  - They seem to be done with all the making of regulations in Brussels
  - Europe also has social interests
  - Europe is not being pushed by technology issues
- China needs to play more in organizations like the IMF
  - As a stakeholder in the world economy, it must start handling its inequality issues
Technical Diffusion
- Must understand situation that may be a gathering storm
- US needs more training in science and math
  - American Competitiveness Initiative is working on this
- US may have problem keeping the Chinese military away from new technologies
  - This is especially true with dual-use technologies
- There may need to be a redefinition of citizenship
  - Comes into play when saying only US citizens can work on defense technology
  - Issue: 40% of all PhD’s graduating from US schools are foreign
    - US cannot treat them as second class in defense work situations
- Another type of problem: New restrictions have been put on 47 types of technology
  - But most are already available in China
- Trust is also an issue
  - DoD wants a better idea about what is happening in the equipment it uses
  - Can we trust what is in a micro-chip made elsewhere?

QUESTION AND ANSWER SESSION

Europe has already decided that sharing dual use technology with China is not a threat
- Has not had the century of growth that the US has had
- Not nearly as concerned about China as the US is

China’s demographics
- Big question is when will China go off the rails given all of its underlying problems
- Two incompatible trends – tremendous growth but looming problems
  - Everyone see the statistics about Chinese demographics
  - So start talking about the puncturing of the Chinese growth balloon
    - Growing social unrest
    - May be limited by horrendous pollution
      - Causes 8-12% of growth lost each year
      - Loosing area the size of Rhode Island to desertification each year
    - Beginning to see the problems with the one-child policy
      - Growing elderly population have little family support
        - Population will peak between 2020 and 2030 and then decline
    - About to be hundreds of millions of elderly
      - Will China grow old before it grows rich?
    - Boy-girl imbalance
      - 30 million men may not have wives
        - To relieve their frustrations, China may move to have a more aggressive use of its military
- China is working on its problems
  - Already some discussions about welfare reform
  - There is little to be done about the demographics problems
India has some advantages over China
- It already has a government based more on laws and is a democracy
- Many of its people speak English
- Upcoming book by the speaker will show that neither is a juggernaut

Cultural explanations don’t explain much about China
- Now all about trade-offs
- West will get access but must expect to be squeezed for it
  - Microsoft was considered a threat to national security
    - Believed that NSA had the backdoor keys to all Windows computers
    - However, Hu visited with Bill Gates recently
      - Microsoft sending new technology investment money into China
  - Hard to say what is culturally dependant
    - Communist Party cannot reform itself
    - Chinese are campaigning about corruption now
      - It is not likely that they could control it
      - Really need a free press and other elements of a free society to fight corruption

The US debt problem
Basic concept:
- If you owe your bank $1,000,000 it is your problem
- If you owe your bank $100,000,000 it is your bank’s problem
- Any attempt by the Chinese to dump their US Treasury bills, etc. would be bad for them
  - Complicating issue: US is a major buyer of Chinese goods and they could stop buying
  - So any effort by either side to make dramatic changes would take down the other side, too, with rippling effects
  - The Chinese may need a domestic policy on spending

China, Russia and Central Asia
- Shanghai Cooperation Organization was started because of fears of terrorism
  - The concept was that terrorists fleeing from one state would not be harbored in another in the region
  - Now using the organization as a way to balance against the US – the only world power – calling for withdrawal of outside (read US) troops from region
  - China and Russia are both interested in moving from a uni-polar world to some sort of multi-polar world

India is suspicious of China’s technical interests
- India is happy that there is no longer an imminent India/Pakistan crisis
- US is talking about how India could play more on the world stage
- China is thinking about the US directly – not as part of a US/India alliance
- India is playing a dual game with China
  - Wants to take advantage of Chinese growth without being threatened by it
Globalization has taken many tools away from policy makers but that may be changing
- There is now a fear that globalization is out of control
  - Causing recent pushback
- The political process may become to risky
  - There is a democratic ground swell calling for something to be done
- In China leaders wake up daily and worry about some catastrophe that will end their growth bubble

The speaker wrote book on Chinese hardware and software innovations
- A few Chinese companies are working toward becoming global entities
  - But leaders have no experience in what to do when they are only growing slowly
- For the book the speaker talked mostly to start-up company people
  - Often all came originally from the same company at the same time
    - Left to found own companies
    - Chinese believe it is better to be the head of a chicken rather than the tail of an ox
  - Problem: scientists are usually not the best managers for business
- There is a delicate balance in the Chinese workplace
  - They wanted to develop an “independent innovation policy”
    - Meaning of independent is closer to “open”
  - Had to drop the term because of complications so they now only talk of innovation
    - Trying not to be quite so restrictive
    - They know they need outside help to continue to grow

Younger Chinese generation attitudes about globalization
- Largely depends on where they live – Shanghai attitudes are much different than those in rural areas
- City youth are generally focused on growth and careers
- Rural youth are usually more concerned about whether their land will be seized by some huge corporation or the government

Recent Chinese ASAT test
- Test itself was predictable but also somewhat surprising and worrying
- Predictable:
  - China had been watching the militarization of space debate in the US
  - China knows that in a conflict over Taiwan, the US would depend on its satellites
    - China wanted the US to know that it would lose its satellites in such a conflict
    - China needs a way to delay or deny US access to the region in conflicts
- Surprising:
  - Chinese keep saying that their rise to power in the world would be peaceful
    - Not like Japan before World War II
    - Yet held test despite much diplomatic effort to stop them
    - Must also worry about the reactions of the Democrats in the US
China does not want to be an issue in the US elections

- Worrisome:
  - Civilian leadership in China was somewhat surprised by test
    - They knew about it only in general terms
  - Of concern: The two sides did not know how to talk to each other
    - Has come up before in situations like the attack on the US recce aircraft

China and Africa

- Mixed relations picture
- China mostly drawn there because of the available resources
- But also wants to use soft power
  - They like to say that they are not like the old colonial powers
- Problems now that sending in vast amount of Chinese labor
  - Africa already has a surplus of labor
  - Beginning to see a backlash
- Also have complications because everything they do, must be done their own way
- Chinese see themselves using soft power but don’t understand the cultural values involved

China will not be a peer competitor by 2030

- It will not be able to project power globally
- The last DoD report on China indicates that:
  - The PLA is predominate
  - China could project power in the region
  - DoD sees the need to engage the PLA more in military to military exchanges
  - Wants to continue to hedge against the PLA strength by improving its own assets
- US has an interest in strong, stable relationships with China
  - More to worry about with a weak, unstable China