



Smart Power, the U.S., and the World

By Joseph S. Nye, Jr.

A Pacific Forum CSIS
L.W. "Bill" and Jean Lane Lecture in Diplomacy
Honolulu, HI,
February 24, 2009

Issues and Insights
Vol. 9-No. 3

Honolulu, HI
February 2009

Pacific Forum CSIS

Based in Honolulu, the Pacific Forum CSIS (www.pacforum.org) operates as the autonomous Asia-Pacific arm of the Center for Strategic and International Studies in Washington, DC. The Forum's programs encompass current and emerging political, security, economic, business, and oceans policy issues through analysis and dialogue undertaken with the region's leaders in the academic, government, and corporate areas. Founded in 1975, it collaborates with a broad network of research institutes from around the Pacific Rim, drawing on Asian perspectives and disseminating project findings and recommendations to opinion leaders, governments, and members of the public throughout the region.

Lane Lecture in Diplomacy

The Ambassador L.W. 'Bill' and Jean Lane Lecture in Diplomacy honors the contributions and accomplishments of long-time Pacific Forum CSIS supporter and Board of Governors member Ambassador Bill Lane and his lovely wife, Jean. Bill Lane is former U.S. Ambassador to Australia and Nauru (1985-1989) and former Ambassador at Large and Commissioner General, Japan (1975-1976). A member of the *TIME Magazine* Board of Directors, he served for many years as publisher and chairman of *SUNSET Magazine*. His association with Asia dates back to World War II, when he served in and around the Philippines as a U.S. Navy gunnery officer aboard a troop ship. His interest in East Asia continues to this day. He founded the Pacific Area Travel Association and is a Pacific Basin Economic Council Trustee.



Table of Contents

	Page
Smart Power, the U.S., and the World By Joseph S. Nye, Jr.	1
Questions and Answers	7
About the Author	11

Smart Power, the U.S., and the World

Keynote Speech by Dr. Joseph S. Nye, Jr.
Pacific Forum CSIS Board of Governors Dinner
February 24, 2009

It's a real privilege for me to be able to give the L.W. "Bill" and Jean Lane Lecture in Diplomacy here and particularly to honor Jim Kelly, who is one of America's great diplomat statesmen. This is a particular privilege for me. I am also pleased by the fact that the Pacific Forum will be expanding its Korea-oriented research activities under the James A. Kelly Korean Studies/Fellowship Program.

Korea always strikes me as one of the great under-celebrated success stories of the world. When I was doing my graduate work I went to Africa. Molly and I both lived there. It has always stuck in my mind that in 1960 Korea and Ghana had the same per capita income. Today, of course, Korea is one the most successful economies in the world, it's a member of the OECD, and it's also a democracy. I think it's underappreciated around the world, so the fact that we have a new set of young scholars who will be coming to honor Jim Kelly but with a connection to Korea makes this a very special evening.

And that is also typical for the Pacific Forum. I must say that after sitting through the board meeting and realizing how much Pacific Forum accomplishes on an annual budget of half a super bowl ad as Pacific Forum CSIS President Ralph Cossa put it, it is extraordinary. You have these wonderful *PacNets*, short notes that go out more than once a week, something like 20 different programs that are going on, and all these wonderful Young Leaders. The amount that goes on of bringing people together through the Pacific Forum is quite extraordinary. Joe Jordan said this afternoon that he sits on several non-profit boards and he has never seen any that gets as much bang for the buck as the Pacific Forum. And I said that's exactly right. I also sit on a number of non-profit boards, and as the military likes to say the "tooth to tail" ratio at the Pacific Forum is unsurpassed. So I say hats off to Ralph, and to his staff for a fabulous job and for a model for the American economy.

I was going to talk tonight about American power and probably that will get us into the American economy. But what I wanted to say is that as we think about the power of the United States the most important thing to realize is how often we've gotten it wrong. Americans are not very good at understanding our position in the world and how we're doing. If you think that's an exaggeration let me remind you that after the Soviet Union put up *Sputnik* at the end of the 1950s there was a widespread view that the Soviets were ahead and we were in decline.

In the 1970s when President Nixon closed the gold window and the dollar no longer could be converted into gold, this was regarded as proof of American decline.

And then in the mid-1980s there was another view that the United States was in decline. My friend the great British historian Paul Kennedy who teaches at Yale wrote a book called "The Rise and Fall of the Great Powers" in which he said that the United States was going the way of

Philip II's Spain or Edwardian England; they were imperially overstretched and we were finished.

I wrote a book in 1990 called "Bound to Lead," that argued that no, the United States would be the leading country of the 21st century. I think I got the answer right but Paul Kennedy got all the royalties.

What we saw in the 90s was the pendulum swinging to the opposite extreme. Instead of declinism we exaggerated ourselves in triumphalism. We thought that now that the Soviet Union was gone and we were the only remaining superpower, we could do whatever we pleased. Charles Krauthammer, the columnist for the *Washington Post* and *Time Magazine*, wrote an article in 2001 that caught the tenor of the times called the "New Unilateralism." Krauthammer said the United States is so strong and there is nobody to balance our power, so we could do whatever we want and nobody has any choice but to follow. Well, guess what? That was a mistake and that cost us dearly.

Now the pendulum is swinging back again and an upward number of people are saying, "you know, the economic crisis shows that we are in decline, that this is the beginning of the end." Maybe the earlier premonitions and prognostications weren't right; they were just premature.

The *Far Eastern Economic Review* last fall published a piece that said that the tectonic plates of world politics are shifting with the economic and financial crisis, and that this is the beginning of the end of the American economic dominance. That was picked up by a number of leaders who didn't particularly wish us well – President Medvedev of Russia, President Chavez of Venezuela. Chavez is quoted as saying "this proves that Beijing is now more important than New York and Washington." That feeling of the beginning of the end of the United States was quite strong. Indeed people said this collapse of Wall Street means the end of the dominance of the dollar. But what's intriguing is if that prediction was correct, the dollar should be going down; in fact the dollar has been going up. That means the United States still remains – despite all our problems – more of a refuge and a safe haven than any other place.

Now, I don't mean to imply that we aren't in deep, deep economic trouble, and any of you who listened to President Obama's excellent address on our problems realize that we are in deep trouble. When people ask if the model that we pioneered in the last decade or so, which was something that the rest of the world emulated, has collapsed, the answer is yes. I mean this particular version of financial capital which you might call the financial model is collapsed. It is quite a remarkable fact that today there are no investment banks left in the United States. That's a big change.

In addition, we got something of a black eye in terms of our soft power or our ability to attract others. The fact that the model that we had touted and others wanted to emulate had led to the collapse that we've seen meant that a lot of people said maybe this model isn't so good after all. Some would say that, plus the ensuing recession, is evidence for this argument that the tectonic plates are shifting and we're beginning to see the beginning of the end. I think that the

problem with that view is that it doesn't separate the short run from the long run. In the short run, we are in deep trouble and it's going to take a lot of effort to get out of that trouble.

In the long run, if you looked hard you'll see that the fundamentals of the American economy, the real economy, still are quite impressive. If you look at the labor markets, we have great flexibility; if you look at higher education, we have the best higher education system in the world (and this is not my judgment as a professor, this is independently attested to by the *Financial Times* and others.) We also have an extraordinary record of innovation. If you look at the technologies that will be the wave of the future, if you look at biotechnology or nanotechnology or web 2.Os and so forth, it's again an area where Americans are ahead of other countries.

In that sense it is not surprising that when the World Economic Forum, which holds the annual Davos events, last year did a study comparing competitiveness it ranked the United States as the most competitive economy in the world. For those of you worried about China overtaking us, China ranked 34.

So there is a fundamental strength in the American economy in the long run if we're able to get from here to there, if we can get through these very deep and real problems that we face in the short run. But even in the long run, we have to be careful not to fall into the kind of hubris that marked the Krauthammers of this world a decade ago.

We may be the country that will be number one, but it's worth noticing the recent report of the National Intelligence Council (a body that I once chaired) that does intelligence estimates for the president. The NIC did a study entitled "2025," which explores what the world is going to look like in 2025, and it says that America may be number one, but our relative lead is going to be much diminished. This is not because of decline of the United States as much as what Fareed Zakaria, the editor of *Newsweek International*, has called "the rise of the rest." In other words, even though we have the potential to do well, other's are going to be doing well also.

That means as we try to think about American power in the world we have to have a sense of the context of power and where we fit for different purposes. Sometimes people think this power is like a lump of concrete where you either drop it on your foot or you drop it on a city; it's not. Power is an ability to affect others to get what you want. And you can do it through threats (sticks), coercion, you can do it through payments (carrots), or you can do it through attracting others to want what you want, which is what I mean by soft power. And if you can get others to want what you want you can save a lot on carrots and sticks. In different circumstances, hard power of either military or economic clout is most important, but in other circumstances soft power may be more effective.

I've often said that if you want to understand more of the power in the world today you have to use the metaphor of a three-dimensional chess game. On the top board of military relations among states, the United States is the only superpower, the only country that can really project power globally. And I suspect that will continue to be the case for decades to come.

If you go to the middle board of economic relations between states, then the world is already multipolar. There are other countries that can balance the United States. Here's where the European Union acts as an entity. China and Japan often essentially make us bargain with them as equals. To give you an example of this power of the middle board, when Jack Welch, the former CEO of General Electric wanted to merge GE and Honeywell, two American companies, he got permission from the American Justice Department but the deal fell through because the European Union wouldn't agree. If that's not balance of power, I don't know what is.

So the top board is unipolar, the middle board is multipolar, but when you go to the bottom board of this three-dimensional game, the board of transnational relations, things cross borders outside the control of governments and it makes no sense at all to talk about unipolarity or multipolarity. Power is chaotically distributed. Think of pandemics which could kill millions, tens of millions of people; think of global warming, which could lead to sea level rises, which could destroy a huge part of this country, like San Francisco Bay, or Chesapeake Bay. Think of transnational terrorism which we now face. It's not any value at all to call this American hegemony or unipolarity or multipolarity. Power is chaotically organized here and the only way you can deal with these challenges in the bottom board is by getting others to cooperate with you to deal with them jointly. And that's where you need to use soft power, to attract others. So what may work on one board as a form of power may not necessarily work on another.

If we think of power and America's role in those terms, it leads to a much more sophisticated strategy, of what we need to invest and how we use our instruments or our tool box.

We're all too familiar with the long tradition of power transition in which one country grows and the other declines. Many people say that this is going to be the lesson of the 21st century, which is the rise of Asia – particularly of China – and the fact that it will replace the United States. There has been a long history of this. If you go all the way back to Thucydides, the argument was that the Peloponnesian War, which destroyed the power of the Greek city state system was caused by the rise in power of Athens and the fear it created in Sparta. Many people have said that's what's going to happen to 21st century, it's going to be like the beginning of the 20th century. What caused World War I? The rise in the power of Germany and the fear it created in Britain. Others say that the 21st century story will be the rise in the power of China and the fear it creates in the United States.

I think this is a misleading historical metaphor. For one thing, Germany had already passed Britain in industrial strength by 1900, 14 years before World War I. If China and the U.S. grow at previous growth rates – let's say 10 percent for China, 2 or 3 percent for the U.S. – China is not going to surpass the United States in overall economic size for a couple of decades, maybe more. And in per capita income, it will take even longer. So the biggest problem we have in terms of how we relate to China is the second half of that equation that Thucydides talks about, the rise in power of Athens *and the fear it created in Sparta*. Too much fear could become the self-fulfilling prophecy.

This is why (former Deputy Secretary of State) Bob Zoellick was right to think that a strategy for dealing with China and power transition as Asia recovers its proper place is a

strategy of trying to bring China into the world as a “responsible stakeholder.” As we thought about this more than a decade ago when we developed the East Asian Strategy, we said the secret to success for the stability in Asia is to reaffirm the U.S.-Japan Security Treaty and realize it is not a relic of the Cold War; it’s the basis for stability in East Asia in the future. With that hedge of a firm U.S.-Japan security alliance, we could afford to reach out and integrate China into the international system. Our alliance with Japan and with Korea give us a sense of security that allows us to integrate China, and I think that has been a successful strategy. It’s held across the Clinton administration to the Bush administration and I think that it will mark the Obama administration.

So the power that we face in the 21st century adjusting to the rise in Asia, in particular in the role of China, I think will be manageable. I may be overly optimistic on this but I think if we play our cards well, this one is going to work into a win-win situation.

What worries me more is not power transition among countries, but what I call power diffusion, away from government states to non-state actors. That has grown because of the technology that has produced the information revolution. The information revolution is simply the extraordinary decrease in the cost in computing and communications. The best way to fix that in your mind is to realize that the cost of computing power has gone down a thousand-fold from 1970 to 2000. If the price of a car had gone down by the same amount you could buy a car for \$5. Any time you have a reduction of cost that is that dramatic it means the barriers to entry go down. Anybody can get into the game who was previously priced out of it. In 1970 if you wanted the capacity to communicate from Honolulu to Johannesburg to Moscow to New York simultaneously you could do it but it was very, very expensive. And you needed to be either in government, a corporation, or even the Catholic Church, but it was something that priced most actors out of the market.

Today anybody who wants that capacity can do it virtually for free. With SKYPE it is free. All you need is to drop into an internet café, a couple of bucks. That means that the barriers to entry for non-state actors have dropped very dramatically. And that means not that the state is replaced by the non-state actors but the stage is very crowded. There are a lot of other players who weren’t there who have a lot more power than in the past. If we think about that in historical terms, if you look at the way that technology has enabled non-state actors like al-Qaeda to become a network organization working in many countries at the same time communicating virtually for free, using the internet for training basically for terrorist courses, you realize what this means in practice to talk about the problem of power diffusion, one of those things that comes from the bottom of the board of the virtual game that I told you about. Or to put in local terms, a non-state actor, a network al-Qaeda killed more Americans in 2001 than the government of Japan did at Pearl Harbor in 1941. That’s different; that’s the privatization of war. That’s a very different kind of world. As we think about how we’re going to cope with this world, yes we have to have the military capacity to preserve stability for the power transition with the rise of China and Asia. But we also have to realize that the threats that we face coming from this bottom board are going to require other tools in our toolbox. And not simply the tools that we’ve used before.

That leads to what I have called the paradox of American power. The strongest country the world has seen since the days of Rome does not have the capacity to protect its citizens acting alone. That means we're going to have to work with others if we're going to deal with pandemics, or global warming, or the problems that come from transnational terrorism. In that sense then we need to think about our power in a different way. We have to begin to realize that we need to develop what Rich Armitage and I developed in our CSIS report, "Smart Power," which is the ability to combine hard power and soft power with different mixes for different contexts if we're going to have successful strategies. The way of thinking about this is that we're going to have to understand how to use all the tools in our toolbox and how to combine them in different contexts to be effective.

When Secretary of Defense Bob Gates gave a speech in Wichita, Kansas in 2007, he said "I'm here to urge that we spend more money on our soft power." He went on to say, it may sound very odd that the secretary of defense is here pleading for more resources for the state department, but that's the kind of world we live in.

It's also interesting that when Secretary of State Clinton was appearing before the Senate for her confirmation hearings, she referred to the need to use our smart power and the three D's of defense, diplomacy, and development if we're going to use all the tools in our toolbox.

So I think that we're beginning to understand that the pendulum is swinging back to a more central position. To cope with the dangers we face in the world today, we've got to think of American power in a more sophisticated way as a problem of smart power strategies.

If I understand the trip that the secretary just completed, it's a good illustration of this smart power. She picked Asia for her first trip. It is very important to show that she understands that the United States understands the rising importance of Asia. She picked Japan as her first stop, showing that she understands that Japan is the bedrock of a successful American strategy in the region. She also went to Korea, an important ally, and Indonesia, which has the world's largest Muslim population. And when she went to China, notice how she talked about not only trade and finance, but also about climate change. About the fact that China is now producing two new coal-fired plants a week, and has now become, alas, the world's CO2 superpower, last year surpassing the United States. The only way that we can solve that kind of problem is cooperatively. We can't bomb China's coal-fired plants. We can't put sanctions against Chinese trade if they use coal, which is their own sovereign resource; if we did that we would screw up the whole world trading system, hurting ourselves as well as them. The only way that we are going to deal with this is through a strategy in which we both would win. We empower China to do better in the way it burns its coal and that's good for us as well as good for them.

The fact that Secretary Clinton visited a plant that was using GE technology to burn coal more cleanly is another example of what I would call smart power strategy.

I would argue that we're beginning, we as a people, the United States, are beginning to get a little better idea of how we need to think of American power and how we need to use smart power if we're going to be successful in coping with all three dimensions of the world that we're entering into the 21st century. I hope I'm right, and thank you for listening.

Questions and Answers

Question 1: *Japan experienced a long period of economic stagnation in the 1990s, but they seem to have emerged from that experience in pretty good shape. Are there lessons from Japan we should be applying?*

I remember going to Japan in the 90s and saying to my Japanese host, “you know you may be going through a decade-long growth recession, but people seem to be living pretty well.” On the other hand it’s worth noticing that Japan, using a fiscal stimulus because they had exhausted their monetary policy by going to zero interest rates, was able to stave off negative growth but they did not have positive growth. And that would be a pity if we were to settle for that. Positive economic growth, 2 or 3 percent a year, provides you with the capacity to do a lot of things. Not only do we need to do a lot at home if we’re going to keep this economic position that I mentioned, we’re going to have to invest a lot more in education and in infrastructure. But in addition we have a global role that Japan didn’t have. We spend 4.5 percent of our budget on defense. Maybe it doesn’t have to be quite that high but it has to be very high. Japan is able to spend just 1 percent of its budget on defense because we spend 4.5 percent.

So I think a low rate of economic growth is not going to be good for us and not going to be good for the world. If you want the tripod that President Obama has announced of a stimulus package, of a system for working on the mortgage markets, and a major effort by the Federal Reserve System to get lending going through the banks, I would hope that (Federal Reserve Chairman Ben) Bernanke is right as he said yesterday. That we may be able to have positive growth next year after a year of negative growth this year.

Question 2: *Where does South America fit into U.S. foreign policy?*

I think we’ve paid too little attention to South America. Remember when President Bush came into office he said that we were going to put a priority on South America. His first visit was with Vicente Fox, Mexico was going to benefit, and so forth. South America was one of the greatest victims of Sept. 11. Once 9/11 happened, the Middle East became the dominant focus and South America was largely neglected. I think that was a mistake. We do have strong interest in South America and I would be interested to see how, given the fact that the Obama administration inherits the deep problems in the Middle East and two wars in Iraq and Afghanistan, and obviously which they can’t ignore, and they’re also realizing the importance of Asia, whether they’re going to be able to squeeze out enough time and attention to make sure that we pay a greater heed to Latin America. That’s tricky and it’s going to be hard.

Question 3: *What do you think about China’s efforts to build its soft power?*

It’s interesting to me that President Hu Jintao addressed the 17th Party Congress in 2007 and said that China needs to invest more in its soft power. It has done a lot with its Confucius Institutes, with an increase of foreign students into China, with an increase in broadcasting and China national radio, and also with its multilateral diplomacy in Southeast Asia, China is making a

major effort. Japan has also talked a lot about its soft power and they've benefited a lot from modern Japanese culture. The problem that Japan has suffered is that every time they began to benefit from this, some politician or the other would step on the message. In other words if you get the younger generation in China or Korea or elsewhere that would be very attracted by modern Japanese culture, somebody would make a remark about comfort women or about visiting the Yasukuni Shrine. What does that do? It makes everybody think back to the 1930s. Well, it's the Japan of today, it's not the Japan of the 1930s. By this kind of kowtowing to extreme right politics and making statements like this, Japan essentially undercut its own soft power. So it hasn't gotten the return on the investment that it should. With all that said, it's worth noticing that the Chicago Council on Global Affairs did a survey last year in which they polled people in Asian countries and lo and behold, despite the efforts of China and Japan, the United States still came in first in terms of soft power.

Question 4: *Given the energy and environmental challenges that we face, some people say the U.S. should rethink its policy toward nuclear energy. Do you agree?*

The United States went through a period after Three Mile Island, which happened in 1979, in which we haven't built any new nuclear power plants. This was partly because of fears of safety but also because the costs of building a nuclear power plant and all the things you had to add on priced nuclear out of the market. It was cheaper to burn coal or gas. That's now changing. The concern about global warming has made people realize that the nuclear option has got to be part of the solution. But with that said, I think that there will be some revival of nuclear energy. It's worth noticing that even if 40 nuclear plants are built in the next decade as I think Senator McCain said in his campaign, that would be just a drop in the bucket of what we will need to do with global warming. So, yes nuclear, but it's not going to solve this problem. We're going to have to do a lot more than just build nuclear plants.

Question 5: *President Obama faces challenges that pull him in different directions. How do you assess his priorities and his policies thus far?*

The urgent generally drives out the important. One of the hard problems that President Obama faces as a leader is how do you combine those two things. It's urgent that we spend a lot of money now to get the economy growing and since we've run out of monetary policy once interest rates are close to zero – we've not quite run out of monetary policy but basically that instrument is pretty well spent – a fiscal stimulus of a very large, unprecedented scale, has to take up a lot of weight. But then you have to say, what do I do having spent a trillion dollars in a fiscal stimulus? What do I do if Bernanke is right and the economy recovers in 2010? Then I've got this huge debt overhang, and I'm going to have a problem not of deflation but of inflation. Will people still hold dollars if they realize that the dollar will decline in value in an inflationary period? So the president has the extremely difficult job selling the American people on spending a huge amount in the short run, but also telling them, "sorry, once things start to go up again for the purpose of the long run, we've got to take a lot of that back." I think that was what he was trying to get across in his State of the Union address and what we'll see when he announces his budget. He's got to talk about how you make sure that the money we're spending not only goes into current consumption but goes into investment, clean energy, or education, and other things that will strengthen our economy in the long run. That is a very interesting problem

for political leadership. David Gergen said on *CNN* as Molly and I were watching, that it's going to take perfect pitch in terms of political touch. How do you explain to people why you're going to spend too much in the short run and why you got to take away from in the longer run and why you have to make investments that are important for long-run growth? We'll see whether he'll be able to carry this out but it is going to be a test of political leadership unlike anything we've seen since the days of Roosevelt.

About the Author

Joseph S. Nye, Jr. is Chairman of Pacific Forum CSIS, and also the Sultan of Oman Professor of International Relations, John F. Kennedy School of Government, and Distinguished Service Professor at Harvard University. Prior to assuming that post, he was Dean of the Kennedy School from December 1995 through June 2004. He has also worked in three government agencies. From 1977 to 1979, Mr. Nye served as Deputy to the Under Secretary of State for Security Assistance, Science and Technology and chaired the National Security Council Group on Nonproliferation of Nuclear Weapons. In recognition of his service, he received the highest Department of State commendation, the Distinguished Honor Award. In 1993 and 1994, he was chairman of the National Intelligence Council, which coordinates intelligence estimates for the President. He was awarded the Intelligence Community's Distinguished Service Medal. In 1994 and 1995, he served as Assistant Secretary of Defense for International Security Affairs, where he also won the Distinguished Service Medal with an Oak Leaf Cluster.

