
EXECUTIVE SUMMARY

This chapter explores the means through which the U.S. can maintain its position as global leader amid a changing international landscape, particularly in Asia.

MAIN ARGUMENT:

Although the current international system is characterized by the continued dominance of the U.S., in the distant horizon there are new competitors, such as China, poised to lay the foundations for gradually eclipsing U.S. primacy over time. The principal task facing the next administration is thus to consolidate U.S. hegemony by redefining the nation's global role, renewing its strength, and recovering its legitimacy. Successful resolution of these challenges would empower Washington in its dealings with both Asia and the rest of the world.

POLICY IMPLICATIONS:

- U.S. efforts in three areas will reaffirm the country's role as global leader: supporting a durable framework for international trade, maintaining unqualified military supremacy, and ensuring the delivery of certain public goods, such as peace and security, freedom of navigation, and a clean environment.
- The renewal of traditional U.S. economic might requires policies that favor growth and innovation, increased capital and labor pools, and sustained pursuit of total factor productivity.
- Legitimacy is an important facet of U.S. power that has eroded over the last eight years. The U.S. can secure legitimacy for future political acts by shaping world opinion through a combination of decisiveness, cultivation of key allied support, and attentiveness to the views of others.

Preserving Hegemony: The Strategic Tasks Facing the United States

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The U.S. experience of hegemony in global politics is still very young. Although the United States entered the international system as a great power early in the twentieth century, its systemic impact was not felt until World War II and, soon thereafter, its power was constrained by the presence of another competitor, the Soviet Union. Only after the demise of this challenger in 1991 has the United States been liberated in the exercise of its hegemonic power but—as has become quite evident in the past two decades—this application of power, although potent in its impact when well exercised, is also beset by important limitations. In any event, the now significant, century-long, involvement of the United States in international politics as a great power tends to obscure the reality of how short its hegemonic phase has actually been thus far.

This hegemony is by no means fated to end any time soon, however, given that the United States remains predominant by most conventional indicators of national power. The character of the United States' hegemonic behavior in the future will thus remain an issue of concern both within the domestic polity and internationally. Yet the juvenescence of the U.S. “unipolar moment,” combined with the disorientation produced by the September 11 attacks, ought to restrain any premature generalization that the imperial activism begun by the Clinton administration, and which the Bush administration took to its most spirited apotheosis, would in some way come to define the permanent norm of U.S. behavior in the global system. In all probability, it is much more likely that the limitations on U.S.

power witnessed in Afghanistan and Iraq will produce a more phlegmatic and accommodating United States over the longer term, despite the fact that the traditional U.S. pursuit of dominance—understood as the quest to maintain a preponderance of power, neutralize threatening challengers, and protect freedom of action, goals that go back to the foundations of the republic—is unlikely to be extinguished any time soon.¹

Precisely because the desire for dominance is likely to remain a permanent feature of U.S. geopolitical ambitions—even though how it is exercised will certainly change in comparison to the Bush years—the central task facing the next administration will still pertain fundamentally to the issue of U.S. power. This concern manifests itself through the triune challenges of: redefining the United States’ role in the world, renewing the foundations of U.S. strength, and recovering the legitimacy of U.S. actions. In other words, the next administration faces the central task of clarifying the character of U.S. hegemony, reinvigorating the material foundations of its power, and securing international support for its policies.

The challenge of comprehensively strengthening U.S. power at this juncture, when the United States is still in the early phase of its unipolar role in global politics, arises importantly from the fact that the hegemony it has enjoyed since 1991 represents a “prize” deriving from victory in intense geopolitical competition with another great power. The historical record suggests that international politics can be unkind to such victors over the long term. A careful scrutiny of the hegemonic cycles since 1494 confirms quite clearly that power transitions at the core of the global system often occur because successes in systemic struggles—of which the Cold War is but one example—can irreparably weaken otherwise victorious hegemonies. The annals of the past actually corroborate the surprising proposition that no rising challenger, however capable, has ever succeeded, at least thus far, in supplanting any prevailing hegemony through cold or hot war. Over the centuries, Spain, France, Germany, Japan, and the Soviet Union all tried in different ways but failed.²

This reassuring fact notwithstanding, hegemonic transitions still occurred regularly in international politics, a reality that points to two critical insights about succession struggles in the international system—

¹ For insightful overviews of the enduring U.S. desire for dominance, especially through the use of military force, see Robert Kagan, *Dangerous Nation* (New York: Knopf, 2006); Fred Anderson and Andrew Clayton, *The Dominion of War: Empire and Liberty in North America, 1500–2000* (New York: Penguin Books, 2005); Melvyn P. Leffler, *A Preponderance of Power: National Security, the Truman Administration, and the Cold War* (Stanford: Stanford University Press, 1992); and Geoffrey Perret, *A Country Made by War: From the Revolution to Vietnam—The Story of America’s Rise to Power* (New York: Random House, 1989).

² This and the next two paragraphs are based on the discussion in Michael D. Swaine and Ashley J. Tellis, *Interpreting China’s Grand Strategy* (Santa Monica: RAND, 2000), 218–29.

which is a subject that ought to be of great significance to the United States and its allies as well as to its adversaries. First, struggles for hegemony in global politics are rarely limited to dyadic encounters between states. These struggles involve not only the existing hegemon and the rising challenger as the preeminent antagonists—roles that many expect will be played respectively by the United States and China over the long term—but also the entire cast of international characters, including non-state actors involved in economic processes, and the nature of their involvement in the competition become relevant to the succession process. Thus, the nature of the alliances orchestrated and managed by the United States (and possibly China as well) in the future, the relationship between state entities and the global economic system, and the relative burdens borne by every actor involved in this contest become relevant to the outcome.

Second, and equally importantly, who wins in the ensuing struggle—whether that struggle is short or long, peaceful or violent—is as important as by how much. This is particularly relevant because the past record unerringly confirms that the strongest surviving state in the winning coalition usually turns out to be the new primate after the conclusion of every systemic struggle. Both Great Britain and the United States secured their respective ascendancies in this way. Great Britain rose through the wreckage of the wars with Louis XIV and with Napoleon. The United States did so through the carnage of the hot wars with Hitler and Hirohito, finally achieving true hegemony through the detritus of the Cold War with Stalin and his successors. If the United States is to sustain this hard-earned hegemony over the long term, while countering as necessary a future Chinese challenge should it emerge, Washington will need to amass the largest differential in power relative not only to its rivals but also to its friends and allies. Particularly in an era of globalization, this objective cannot be achieved without a conscious determination to follow sensible policies that sustain economic growth, minimize unproductive expenditures, strengthen the national innovation system, maintain military capabilities second to none, and enjoin political behaviors that evoke the approbation of allies and neutral states alike.

The successful pursuit of such policies will enable the United States to cope more effectively with near-term challenges as well, including the war on terrorism and managing threatening regional powers, and will ineluctably require—to return full circle—engaging the central tasks identified earlier as facing the new U.S. administration. These tasks involve the need to satisfactorily define the character of desirable U.S. hegemony, the need for sound policies that will renew the foundations of U.S. strength, and the need to recover the legitimacy of U.S. purposes and actions. What

is clearly implied is that the principal burdens facing the next U.S. president transcend Asia writ large. The success of these pursuits, however, will inevitably impact Asia in desirable ways, even as the resolution of several specifically Asian problems—including those highlighted in this volume—would invariably contribute to the conclusive attainment of these larger encompassing goals.

Meeting Foundational Goals

Discharging Hegemonic Responsibilities

The widespread perception both within the United States and internationally that the Bush administration applied U.S. power in an excessively heavy-handed fashion will compel the new administration to define—either explicitly or implicitly—its own vision of how U.S. hegemony ought to be exercised. Many critics have argued that the exercise of hegemony during the past eight years has been particularly dangerous because U.S. actions under George W. Bush have “brazenly undermined Washington’s long-held commitment to international law, its acceptance of consensual decisionmaking, its reputation for moderation, and its identification with the preservation of peace.”³ Whether or not this criticism is justified in its details, its focus at least appears to be misplaced because it centers on what Marx might have called the “superstructure” rather than the “base” or the core tasks associated with any successful hegemony.

The first task that any effective hegemony must accomplish is the production of order in the international system. Because interstate competition, including violent contestation, is the customary order of things in an “anarchic”⁴ environment, the success of any hegemony is measured primarily by how it can use the acutely unequal distribution of power connoted by the fact of hegemony to preserve a modicum of peace between at least the major powers in the international system and perhaps others of lesser consequence as well. The hegemonic state preserves such order not out of altruism or a philosophical preference for the preservation of peace but because of self-interest. Major wars in the international system are invariably disruptive events: they can undermine the hegemonic state’s interests in the regions wherein they occur, threaten its allies, disturb the peaceful

³ See, for instance, Robert W. Tucker and David C. Hendrickson, “The Sources of American Legitimacy,” *Foreign Affairs* 83, no. 6 (November/December 2004): 18–32, <http://www.foreignaffairs.org/20041101faessay83603/robert-w-tucker-david-c-hendrickson/the-sources-of-american-legitimacy.html>.

⁴ The term “anarchic” here is used in the sense elaborated in Kenneth N. Waltz, *Theory of International Politics* (New York: McGraw-Hill, 1979).

environment necessary for trade and commerce, and generate alterations in the local balance of power that could produce either new regional or global challengers down the line. For all these reasons, preserving order has always been the most important task facing any hegemonic power.⁵

The second task confronting a hegemonic state today is preserving a durable framework for international trade and commerce. The natural condition in competitive political environments is for states to emphasize autarkic policies that limit economic interdependence. These approaches are intended to minimize the national vulnerability arising from the specialization that would ensure among countries that remained political adversaries. The fear that some states would gain more than their partners in various trading interactions further dampens the propensity to expand trade. The normal consequence of rivalrous international politics, therefore, is a shallow international division of labor and consequently reduced specialization and depressed growth relative to a vibrant and open trading system. The presence of a hegemonic state is necessary to liberate states from such immiserization. Through its superior capabilities, the hegemonic power can ensure that states would not use either the advantages conferred by specialization or the gains derived from trade to accumulate and apply the military instruments that could threaten the security of other states. In so doing, the hegemonic state mitigates the security dilemmas that would otherwise confront critical trading partners and as a result creates conditions for sustaining an open trading system that increases, first and foremost, its own economic growth and the welfare of its own citizenry and, as a derivative consequence, growth and welfare in other nations as well.⁶

The third task facing any hegemonic state is to make the “supernormal” contributions that lead to the adequate production of certain collective goods necessary to the health of the global system. Collective goods are, by definition, non-rival and non-excludable; that is, they can be consumed by all—once made available—irrespective of whether any of the consumers have contributed to their production. Thus, the natural tendency in any egotistical social system is for public goods to be underproduced. This is because rational maximizers, all calculating that they can enjoy the collective good for free even if they do not pay for it, usually seek to “free

⁵ For an extended discussion, see George Modelski and William R. Thompson, *Seapower in Global Politics, 1494–1993* (Basingstoke: Macmillan, 1988).

⁶ For a survey of these themes, see Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987); and Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton: Princeton University Press, 2001). For extensions and critiques, see Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 2005); and Joseph M. Greico, “Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism,” *International Organization* 42, no. 3 (August 1998): 485–507.

ride” by withholding their own contributions in the hope that somebody else may bear the costs of producing it. The aggregation of such individually rational behaviors usually results in the underproduction of many collective goods such as freedom of navigation, regional peace and security, and a clean environment. This conclusion holds true unless a hegemonic state—that is, some “privileged” entity that is inconvenienced more by the absence of the public good than the costs to produce it—makes a supernormal contribution to underwriting its production not as an act of altruism but out of sheer self-interest.⁷

Since a successful hegemony is one that discharges these three tasks efficaciously, how the United States has performed in regard to its global role over the last eight years ought to be judged not so much by its supposed commitment to international law, consensual decisionmaking, or moderate behavior. Rather, the United States ought to be judged by its capacity, intention, and willingness to implement those critical tasks essential to global stability in a foundational sense. By the standards of the three tasks above, it is possible to argue that the Bush administration has not done as badly as its most vociferous critics allege. The United States has successfully maintained regional security in many critical quadrants of the globe. The administration has sustained geopolitical relationships with major states such as Russia on an even keel (sort of) and has successfully juggled (at least thus far) the competing challenges of integrating a rising power such as China while effectively balancing against its potential to disrupt Asian stability. The United States has managed to keep key alliance partners such as Japan and South Korea reasonably reassured, while developing strong ties with new emerging states such as India, and has attempted (although haphazardly and after much hesitation) to resolve important disputes involving the Middle East, North Korea, Libya, and the like. This conclusion may be justifiably challenged in its details in many instances, particularly when measured against the bar of whether Washington could have done better. What is more important for purposes of analysis, however, is that U.S. success be judged not against superficial political realities but rather against the key structural tasks associated with successful hegemony.⁸

As for the first task of maintaining peace and stability, the most radical criticism that could be mounted of the administration’s record concerns, of course, George W. Bush’s decision to invade Iraq. Internationally, this

⁷ Mancur Olson, Jr., *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge: Harvard University Press, 1965).

⁸ For one useful survey of Bush’s achievements, at least in Asia, see Victor D. Cha, “Winning Asia: Washington’s Untold Success Story,” *Foreign Affairs* 86, no. 6 (November/December 2007): 98–113; and Michael J. Green, “The Iraq War and Asia: Assessing the Legacy,” *Washington Quarterly* 31, no. 2 (Spring 2008): 181–200.

decision has been viewed as an effort by Washington to impose its will in pursuit of naked self-interest rather than to mitigate some generally accepted threat to global order. The virtue of this decision will continue to be debated by historians; what can be said simply at this juncture is that the failures associated with this effort have made the wisdom and the legitimacy of the original decision to invade even more problematic. Even if ultimately concluded successfully, the war in Iraq will remain an important case that tests the issue of how hegemony is to be exercised. True, hegemonic powers have always waged wars against equals or weaker states when necessary in their self-interest, and it is indeed desirable that such wars be waged whenever possible with international support. The key question, however, is whether it is reasonable to expect a hegemonic state to be forever bound by the constraints of *ex ante* foreign approval. This question is made even more complicated by the fact that global, or even majoritarian international, approval is a somewhat slippery thing because acquiescence, if not approval, often arises *ex post* if the hegemonic state enjoys a speedy and a reasonably permanent success in war. Successors to Bush will, therefore, have to face questions that will not go away so long as the United States remains a hegemonic power: how and when should force be applied and to what degree should international consensus be pursued as a precondition to the use of force, given that decisions about war and peace will ultimately always be grounded in the pursuit of self-interest.

The Bush administration also appears to have done reasonably well, at least at first sight, in regard to maintaining an open international economic system. The administration upheld the postwar U.S. commitment to a liberal international order, despite a number of worrisome issues. Foremost among these were the uncertainties associated with China's political and military rise in Asia, the sometimes heavy-handed Russian re-entry into international politics as a raw material-exporting state, the steep rise in energy and food grain prices, and the increasing domestic U.S. disenchantment with globalization and the country's deteriorating national and foreign balances. Washington's political commitment to sustaining an open trading system, however, has resulted in its resisting protectionist pressures at home, contributing to the spread of development benefits in major developing countries such as China and India, and maintaining stable expectations that international trade will continue at relatively high levels well into the prospective future.⁹

⁹ For an overview of the contemporary U.S. policy debates on the international trading order, see Wayne M. Morrison and William H. Cooper, "The Future Role of U.S. Trade Policy: An Overview," Congressional Research Service, CRS Report, RS22914, July 14, 2008, available at <http://opencrs.com/document/RS22914>.

Where the administration has been less than successful, at the time of this writing, has been in expanding the international economic system dramatically as it had sought through the successful conclusion of the Doha round.¹⁰ This failure, which hopefully can be mitigated in the future, arose largely from another disappointment: the administration's decision not to offer significant cuts in U.S. farm subsidies despite rising food prices—a product of domestic politics—while simultaneously demanding more extensive access for U.S. agricultural products in foreign markets. Washington has attempted to circumvent—not confront—this conundrum by negotiating preferential trade agreements (PTA) with various states to create in effect multiple micro-systems of free trade among consenting partners. This attempt at “freeing trade on a discriminatory basis”¹¹ has been justified as a transitory, back door strategy of forcing the desirable expansion of the global trading system in the face of failures in multilateral negotiations. But such efforts, though apparently successful, also come at high costs. They produce undesirable international diversion effects involving a shift in trade flows from cheaper non-partner sources to more expensive preferential partners, thus reducing the gains in welfare all around, even as they prolong the domestic distortions in agricultural pricing that increase the welfare costs to U.S. consumers as well.

Most importantly, from the perspective of preserving a well-ordered international system, the strategy of negotiating multiple PTAs indicates a failure of the United States to exert hegemonic leadership. Despite the presence of committed free traders at the helm, the administration was unable to summon leadership of the kind that would, both by force of example and through the demand for reciprocity, lead the international system toward a more uniform, non-discriminatory expansion of global trade—an enlargement upon which the United States' own continued political dominance, global competitiveness, and increased welfare all depend. Bush's successor will, therefore, be confronted with the strategic decision of whether to persist with existing policy, which yields only modest private benefits but produces significant collective costs, or shift toward a truly hegemonic strategy that involves leading the global trading system toward a new equilibrium, which while being beneficial to the United States also turns out to be advantageous to all.

The Bush administration has also done reasonably well in regard to sustaining the traditional U.S. contribution toward the production of

¹⁰ Stephen Castle and Mark Landler, “After 7 Years, Talks Collapse on World Trade,” *New York Times*, July 30, 2008.

¹¹ This argument has been made most trenchantly in Jagdish Bhagwati, *Termites in the Trading System: How Preferential Agreements Undermine Free Trade* (New York: Oxford University Press, 2008).

collective goods. U.S. successes here have been most conspicuous in the realm of international security, less so in the arenas of climate change and protecting the environment. Since the United States enjoys the sharpest asymmetries in military capability, it is not surprising that those contributions to global public goods ensuing from U.S. military superiority have been the easiest to make and are also the most enduring. Three critical contributions in this regard are worth mentioning. The U.S. system of alliances and its emerging network of friends in Asia—all underwritten by the assurance of superior military power—have been critical to preventing any disorderly balancing within the continent in response to rising Chinese power. The continuing stability of the global energy market in an era of rising prices is also ensured by U.S. military advantages, which push states in the direction of peacefully diversifying sources and realizing energy economies through other means than through predatory political solutions. The continuing ability of the international economic system to flourish is owed largely to the U.S. military's ability to police the commons in a way that makes any unilateral efforts by other states at controlling it both expensive and unproductive. While it is possible, perhaps even likely, that all the major Asian powers in the years ahead will develop contingency plans to shift to alternative strategies in each of these issue areas, these states are unlikely to succumb to any pressures for change as long as U.S. military capability in Asia and globally is viewed as sufficiently robust.¹²

The major arenas requiring a review of current policy subsist in the realm of the environment and climate change. The Bush administration chose not to play the role of a “privileged” contributor to resolving the collective action problems associated with climate change because of the arguably high costs to the U.S. economy.¹³ While these costs are significant, especially if borne unilaterally, the real question facing Bush's successor fundamentally revolves around opportunity. The crux is whether the pressure for a significant U.S. contribution to mitigating climate change, even if unilateral, can be viewed as an opening to engineer a new wave of technological innovation—innovation that potentially could restructure the U.S. (and perhaps the global) economy and, more importantly, could create new “leading sectors” that would increase the technological advantage

¹² See the discussion in Stephen M. Walt, “American Primacy: Its Prospects and Pitfalls,” *Naval War College Review* LV, no. 2 (Spring 2002): 9–28.

¹³ For one useful overview, see “Kyoto Protocol and Beyond: The High Economic Cost to the United States,” DRI-WEFA, 2002, <http://www.accf.org/pdf/EcoImpact-GHG-US.PDF>. For a more detailed analysis, see “Impacts of the Kyoto Protocol on U.S. Energy Markets and Economic Activity,” Energy Information Administration, SR/OIAF/98-03, 1998, <http://www.eia.doe.gov/oiaf/kyoto/kyotorpt.html>.

the United States enjoys relative to both its allies and its adversaries.¹⁴ A conscious decision to contribute asymmetrically toward mitigating global climate change would exploit the explosive innovative capacity inherent in American capitalism through deliberate public policy decisions. The new clusters of innovation that would emerge from the attempt to move away from fossil fuels as the motor of economic activity would likely produce a new Kondratieff wave in the global economy—the beneficial consequence of which would be the renewal of U.S. primacy in international politics.

Smart decisions in regard to resolving transnational collective action problems of the kind represented by climate change, then, hold the potential for settling more than simply dilemmas pertaining to the production of public goods. Rather, by contributing to the reinvigoration of the U.S. economy itself, these decisions could lay the foundation for a more durable consolidation of U.S. hegemony. Building such a foundation is particularly crucial at a time when new great powers, such as China, having slowly exploited their comparative advantage of lower labor costs and having steadily mastered existing technologies, could lay the foundations for gradually usurping U.S. primacy over time. The choices made by Bush's successors in regard to the production of critical non-military public goods could thus become the spearhead of revolutionary economic change that creates new leading sectors, fortifies the U.S. position as the world's lead economy, and entrenches U.S. hegemony for a new long cycle in international politics.

Buttressing Material Foundations

Even as the next administration faces up to the challenge of redefining the character of U.S. hegemony in a structural sense—through the manner in which it produces order, upholds the global economy, and provides public goods—it will also be confronted simultaneously with the task of renewing U.S. strength or, in other words, refurbishing the material foundations of U.S. power. The success of the United States as a hegemonic entity derives intimately from its exceptional military capabilities, which in turn are products of a nimble and innovative economic system that thus far has managed to produce both power and plenty without agonizing trade-offs. Even though the United States has for the last several decades grown at a much slower rate in comparison to the fastest-growing developing countries such as China—a not surprising fact because poor countries

¹⁴ A path-breaking discussion on the critical role of “leading sectors” in maintaining hegemonic leadership can be found in George Modelski and William R. Thompson, *Leading Sectors and World Powers: The Coevolution of Global Politics and Economics* (Columbia: University of South Carolina Press, 1996).

experience increasing returns to scale in the early phases of their growth cycles—U.S. power derives, at least as a first cut, from the enormous strength of its economy when measured in absolute and relative terms. Since the U.S. economy is so huge, even modest growth rates contribute to an ever-expanding national product, which then pays for both the nation's domestic needs and its international interests.

The sustenance of U.S. hegemony over time, however, requires that the United States maintain a steady rate of economic growth and certainly one that is superior to the secular growth rate of its competitors. The emphasis on secular growth rates is important to preclude any facile extrapolations between the currently high growth rates of developing countries like China and the lower growth rates of mature economies like the United States. Thus, as the Chinese economy develops over time, it is reasonable to expect that the iron constraints of diminishing returns will depress its currently high rates of growth. Consequently, the prospects facing the United States and China—or any other state—is best judged not by a comparison of current growth rates but rather by a more sophisticated assessment of their secular growth trends that takes into account multiple factors such as capital accumulation, labor force growth, and technological change.

The task of reinvigorating U.S. power is, therefore, driven by the necessity of doing whatever it takes to maintain the highest possible growth rates over the long term. This objective has acquired some urgency for two reasons. In all likelihood, the international system appears to be in the early stages of a new long cycle in international politics, one that, though characterized by the unchallenged dominance of the United States, is also likely to see the rise of new competitors such as China over the distant horizon.¹⁵ Further, the emerging reality of globalization, coupled with the information technology revolution, suggests that the United States as well as the global economy may be on the cusp of a dramatic transformation where new forces that enable growth and productivity will confront the older entropic challenges of natural resource depletion and environmental decay. If the United States is to successfully dominate this emerging long cycle in international politics, its economic system will have to maintain the capacity for the highest secular rates of growth possible with minimum negative externalities relative to its peers. Bush's successors will be faced with the challenge of making the necessary course corrections required to set the U.S. economy on such a path given the burdens imposed by the ongoing

¹⁵ For a more involved discussion, see Modelski and Thompson, *Leading Sectors and World Powers*, 65–104. For a sophisticated retrospective, see Joshua S. Goldstein, *Long Cycles: Prosperity and War in the Modern Age* (New Haven: Yale University Press, 1988).

wars in Afghanistan and Iraq, rising raw materials and energy costs, and the serious national budget deficits as well as the negative balance of payments.

Whether the United States can overcome these challenges will depend greatly on the nature of its public policies and how these affect the fundamental components of the growth process. Effective policies would focus on maintaining high levels of capital formation, ensuring the availability of an adequate labor force of sufficient quality, sustaining technological progress, increasing the efficiency with which these inputs are productively combined, and limiting the adverse consequences of any other problematic political decisions on growth.

It is now almost a truism that increasing the stock of capital is critical to sustaining high levels of economic growth because, other things being equal, the greater the amount of capital relative to labor, the more productive the latter can be in the creative process. Increasing capital stock therefore became the Holy Grail in traditional economic theory. Capital formation in principle derives from the rate of savings in an economy which, together with foreign borrowing, determines the national rate of investment. Compared to many fast-growing developing countries, the United States has been an abysmally lower saver. From 1960 to roughly 1980, the U.S. savings rate remained stable at about 11%, dropping steadily until it reached about 1% in 2005 before crossing into negative range in 2006—the first time that has happened since 1932–33, when the United States struggled with the huge job contraction brought by the Great Depression. In contrast, India's savings rate is roughly about 25%, South Korea's and Japan's savings rate varies typically from the high 20s to the mid-30s, and China's savings rate is a staggering 50%.¹⁶

The United States can sustain domestic economic growth amid such poor savings rates only because it has benefited from large injections of foreign capital. The willingness of foreigners to underwrite U.S. overconsumption over long periods of time—some 55 years and counting—is no doubt a tribute to the attractiveness of the United States as an investment destination. However, it has been made possible equally by the domestic strategies pursued by several important creditors who, having suppressed internal consumption in order to generate high rates of national savings, now choose to invest in the United States either because it provides superior rates of return or greater safety in comparison to some other alternatives. The external deficits sustained by the United States can, therefore, persist for a long time to come so long as these core conditions—the attractiveness

¹⁶ Barry P. Bosworth, "United States Saving in a Global Context," testimony before the Senate Committee on Finance, Washington, D.C., April 6, 2006, http://www.brookings.edu/testimony/2006/0406macroeconomics_bosworth.aspx.

of the U.S. economy coupled with excessive foreign liquidity—continue to hold. In fact, it is reasonable to argue that Washington enjoys the better end of the bargain because it is trading paper IOUs—its currency—for real assets created within the United States as a result of foreign lending.

But such a condition nonetheless creates long-term challenges from the perspective of enhancing national power. For starters, such a strategy will be more and more difficult to sustain as more baby boomers in the United States move into retirement and as U.S. creditors shift to alternative strategies of fueling their own national growth, such as increased domestic consumption. Even if the latter shift does not occur abruptly—which could cause a genuine crisis in the global economy—the current strategy results in a significant short- to medium-term loss of U.S. control over the dollar's value even as it contributes to an overvalued dollar. As a result, it becomes more difficult for U.S.-based firms to enlarge their export markets. Most problematically, however, the excessive U.S. dependence on foreign borrowings raises the specter that U.S. security policy, particularly in Asia, will be unduly compromised by the reliance on creditors, such as China, who are simultaneously its incipient geopolitical rivals. Washington's continuing ability to protect its strategic interests, therefore, necessitates reduced reliance on foreign borrowing over time, which in turn requires an economic strategy that focuses on financing growing U.S. consumption through increased personal incomes rather than relying on cheap foreign lending.¹⁷ In this context, rationalizing taxation policy and exploiting other fiscal instruments to spur new investments in infrastructure and advanced technologies remains critical.

If the next president thus has his work cut out for him in regard to strengthening capital formation for long-term growth, equally important tasks remain with respect to ensuring the availability of an effective labor force. With the world's third largest population, it might be imagined that the United States enjoys a capacity to fuel economic growth through labor force improvements for a long time to come. The quality of life enjoyed by the U.S. population as measured by per capita income is obviously very high—with beneficial consequences for economic growth and productivity—but this population, compared to that of many emerging powers, is progressively aging. The 0–19 age group of the U.S. population in 1950, for example, consisted of about 34% of the total U.S. population, with the 20–64 age group constituting almost 58%, and the 65+ age group

¹⁷ For an excellent discussion of these issues, see Stephen D. Cohen, “The Superpower as Super-Debtor: Implications of Economic Disequilibria for U.S.-Asian Relations,” in *Strategic Asia 2006–07: Trade, Interdependence, and Security*, ed. Ashley J. Tellis and Michael Wills (Seattle: The National Bureau of Asian Research, 2006), 29–63.

constituting about 8%—a classic Christmas tree–like population pyramid designed to fuel national economic expansion. By 2050 this Christmas tree–like pyramid is projected to become virtually rectangular, with the 0–19 cohort constituting 26% of the population, the 20–64 group coming in at a little more than 53%, and the 65+ cohort constituting well over 20% of the total population.¹⁸

The changing demographic profile of the United States, with the relative compression of the most productive segments of the population, highlights three important challenges that the next president will have to confront from the perspective of protecting U.S. well-being and long-term growth.

First, the challenges of dealing with an aging population will demand solutions to critical programs like Social Security, Medicare, and Medicaid, which are saddled with problems of solvency that implicate tricky issues of intergenerational equity. While public policy solutions to these programs must be found, any proposed plans will have to satisfy current and prospective retirees without subverting the larger structure of social incentives that has made the United States such a rich and productive country.

Second, the prospective thinning of the most productive cohort within the U.S. economy, and the changed dependency ratios that are triggered thereby, renews attention to the issue of immigration. The reputation of the United States as a country that welcomes immigrants has always been a safety valve from the perspective of maintaining an effective labor force: immigrants can quickly mitigate the deficits in labor force growth and, depending on their skill sets, can do so with minimal disruption to the existing social fabric. Unfortunately, in recent years, thanks both to the tragedy of September 11 and the vicissitudes of domestic politics, the United States has been unable to devise a rational immigration policy that serves the national interests. Further delays in crafting such a policy will exact a high price because the slowdown in the import of immigrant labor (and skilled immigrant labor, in particular) will depress the contribution that labor as a factor of production can make to GNP growth. This is especially worrisome at a time when productivity is likely to fall as the economy absorbs the gains deriving from the IT investments of the 1980s.

Third, the issue of the quality of the future U.S. labor force is also critical. There is a substantial body of evidence demonstrating that, important as physical capital is for national growth, the quality and quantity of human

¹⁸ See Laura B. Shrestha, *The Changing Demographic Profile of the United States*, Congressional Research Service, CRS Report for Congress, RL32701, May 5, 2006.

capital available may be even more important.¹⁹ The importance of education is particularly significant in this regard, and the next administration will have to face up to multiple challenges. Among the more prominent are issues relating to the quality of U.S. primary and secondary education, the still conspicuous weakness in science and mathematics training in the school system, and the relatively small number of U.S. citizens receiving advanced training in the physical and engineering sciences. All these issues taken together have an important bearing on whether the United States will be able to maintain its technological edge over time and, by implication, its political hegemony relative to other rising powers.

Although classical growth theory argued the primacy of increasing capital and labor as inputs to the growth process (since land was constant in quantity and entrepreneurship was treated as exogenous), modern economics has invariably emphasized the importance of technological change as a critical driver of long-term growth. Because the iron law of diminishing returns applies to capital accumulation as well, early neoclassical economics postulated the possibility of a “steady state,” a hypothetical point where even an increase in capital would not produce further growth. The creation of new technology, however, provided one solution to escape from the tyranny of the steady state. Contemporary growth theory concludes that technology—with its intrinsic links to both human capital and entrepreneurship—is in fact another “endogenous” factor of production, like physical capital and labor, in the growth process.²⁰ There is in fact little doubt at a policy level that the technological innovativeness of the United States has been a major contributor to its growth as a world power, even if it had been traditionally difficult to prove the difference that technology made as a factor of production to the national product. In any event, there is widespread consensus today that the superior velocity of technical change in the United States across the spectrum from civilian to military endeavors remains the key to its global superiority and must be maintained.

Maintaining U.S. technological leadership, however, requires sustaining, if not improving, what is already the best national innovation system in the world. The majority of U.S. innovations, however, are incremental ones. These innovations, which derive from the marginal improvements in goods,

¹⁹ This insight is systematically developed in Theodore W. Schultz, *Investing in People: The Economics of Population Quality* (Berkeley: University of California Press, 1981); and in endogenous growth theory by Paul Romer, Robert Lucas, and Robert Barro. See, for example, Paul M. Romer, “The Origins of Endogenous Growth,” *Journal of Economic Perspectives* 8, no. 1 (Winter 1994), 3–22; Paul M. Romer, “Human Capital And Growth: Theory and Evidence,” National Bureau of Economic Research, Working Paper no. 3173, November 1989; and Robert E. Lucas, “Ideas and Growth,” National Bureau of Economic Research, Working Paper, no. 14133, June 2008.

²⁰ Robert E. Lucas, Jr., *Lectures on Economic Growth* (Cambridge: Harvard University Press, 2002).

organization, and markets that are constantly occurring in response to the pressures of a competitive marketplace, undoubtedly contribute to most of the economic growth that occurs routinely. So long as this rate of change is superior to that occurring in other countries, the United States will maintain its current lead over other states. What will decisively advantage Washington in the great-power game and allow it to enjoy higher secular growth rates relative to others, however, is not incremental innovation but rather the generation of new leading sectors arising from radical innovations. Such innovations are the kinds that produce what Joseph Alois Schumpeter once described as the “gales of creative destruction” that are caused when revolutionary transformations make obsolete old inventories, ideas, skills, organizations, technologies, and equipment.²¹

Such innovations are fundamentally science driven and in the United States are incubated as much in the private sector as through government-funded research and development. The changing trends, however, deserve careful notice. Increasingly it appears that autonomous private-sector investments account for much smaller shares of critical innovations in contrast to collaborations involving spin-offs from universities and federal laboratories. Furthermore, the number of innovations that derive from federal funding has increased dramatically. These facts suggest that the task of the next administration will therefore be to at least sustain, if not increase, the level of public funding for science and technology and to improve the policy framework to assist the transformation of advanced research into breakthrough products that can rapidly reach the market.²² The United States does very well in basic research and invention, as evidenced by the country’s patent rankings internationally. It does equally well in producing and distributing new technologies efficiently thanks to its highly dexterous private-sector system. What it does least effectively is bridging these two bookends by enabling efficacious early-state technology development when novel and innovative ideas have to overcome extraordinarily high business and technical risks before they can be transformed into end-products that can be manufactured en masse and distributed through conventional means in the national and global marketplace. Improving the nation’s capacity to sustain early-state technology development for radical innovations would be the best single step that could be taken to improve the contribution

²¹ Joseph A. Schumpeter, *The Theory of Economic Development* (Edison: Transaction Books, 1982).

²² Fred Block and Matthew R. Keller, “Where Do Innovations Come From? Transformations in the U.S. National Innovation System, 1970–2006,” Information Technology and Innovation Foundation, July 2008, 1–22.

technology makes to GNP growth and, in the process, sustain the U.S. lead over its geopolitical competitors.²³

While reinvigorating the material foundations of U.S. national power will require adopting policies that permit the growth of national output at the highest possible rate over time—and increasing the quantity and quality of capital, labor, and technology remains important in this context—other intervening variables are also relevant. The most important intervening variable from an economist’s perspective is improving the efficiency with which the “inputs” to the production process—or the total factor productivity in economic jargon—are combined. From the perspective of strengthening U.S. power at this juncture, however, another more properly political task also confronts the new administration: determining the future of the current wars in Iraq and Afghanistan because of the burdens they impose on the United States. A brief comment on each of these issues is appropriate.

The United States has enjoyed a remarkable resurgence in productivity since the mid-1990s. The sources of this productivity growth are still contested, with some studies attributing it to the IT investments of the earlier decade and others suggesting that changes in the labor market performance might be responsible.²⁴ Irrespective of which hypothesis is correct, the issue of note is that U.S. productivity growth has appeared to be slowing since about 2005, at a time when most emerging markets appear to be performing impressively on average. Maintaining productivity growth is obviously important because it enables the United States to increase national output without having to increase the inputs injected into the production process. It is also critical because it remains the best means of increasing standards of living in the long run: since total factor productivity growth is always equal to the weighted average of real wages plus real payments to capital, increased growth enables raising real wages without reducing the returns to capital.

If the issue of maintaining productivity growth constitutes the transforming element in the economic realm, bringing the wars in Afghanistan and Iraq to a happy conclusion could be conceived as its political counterpart. Success here would liberate the U.S. economy to

²³ Lewis M. Branscomb and Philip E. Auerswald, “Between Invention and Innovation: An Analysis of the Funding for Early-Stage Technology Development,” NIST GCR 02-841, Report to the Advanced Technology Program, National Institute of Standards and Technology, U.S. Department of Commerce, March 6, 2003.

²⁴ For an example of the different views, see Dale W. Jorgenson, Mun S. Ho, and Kevin J. Stiroh, “Will the U.S. Productivity Resurgence Continue?” *Current Issues in Economics and Finance* 10, no. 13 (2004): 1–7; and Barry P. Bosworth and Jack E. Triplett, “What’s New About the New Economy? IT, Economic Growth and Productivity,” 2002, http://www.brookings.edu/papers/2000/1020healthcare_bosworth.aspx.

focus on resolving those more pressing domestic problems that inhibit the growth of U.S. strength. Expanding investments in national infrastructure, defeating poverty, restoring fiscal discipline, and expanding the range of opportunity for the U.S. citizenry would be among the problems that could be addressed more easily if a satisfactory conclusion to these twin conflicts could be realized. This will be, however, among the most difficult, yet urgent, challenges facing Bush's successor. If current trends continue, it appears as if the United States will steadily reduce its involvement in Iraq irrespective of whether Senator John McCain or Senator Barack Obama becomes the next president. A number of factors—the steep and rising costs of the war, the public exhaustion with its course, the undermining of all the original rationales for the conflict, and the steadily increasing human toll in combat operations—seem to be coagulating to compel a substantial U.S. withdrawal from Iraq in the not too distant future. The recent improvements in the security situation in that country, coupled with the election of an indigenous government that now seeks for its own domestic reasons to minimize the U.S. presence, will increase the pressure for reduced U.S. involvement, especially given the financial relief that such withdrawal seems to promise (even if it is ultimately belied).

A comparable departure from Afghanistan is unlikely—and unnecessary. First, the scale of U.S. military involvement in Afghanistan is modest in comparison to Iraq, and the financial burdens of this war far more manageable as well. While a drawdown from Iraq will likely result in increased U.S. allocations of personnel and equipment to Afghanistan, such a diversion is not only justified by the origins of this mission but, more importantly, will require only modest increases for success. The biggest challenge in this regard may well be how the United States manages Pakistan rather than any operational or fiscal constraints in regard to completing the Afghan mission. In any event, appropriately altering the character of U.S. military involvement in these two wars to minimize the burdens while still protecting core interests will be essential, if the larger task of strengthening U.S. power for the long term is to be sustained.

Any discussion about reinvigorating the material foundations of U.S. power would be incomplete without a reference, however brief, to the obvious—and, in a competitive political system, to the most important—manifestations of that power: military capabilities. There is little doubt that the United States today and for the foreseeable future will continue to possess unparalleled military capabilities. No other state maintains armed forces of the size, quality, reach, depth, and diversity as those of the United States. Yet for all this potency, the next president will be confronted by difficult decisions in regard to the character of the U.S. military,

starting first and foremost with budgetary challenges. Since September 11, the total obligational authority of the U.S. Department of Defense has increased by some 60%, not counting the Bush administration's periodic supplemental requests to finance the current wars. Although this expenditure level will not be reduced drastically, it is quite clear that the pace of growth seen in recent years cannot be sustained. The inevitable paring of U.S. defense expenditures that must be expected in the future will then collide with the major recapitalization requirements necessary to maintain the potency of the armed services over the long term. The steep cost growth of major weapons systems—such as the F-22 air dominance fighter, the Littoral Combat Ship and the DDG 1000 destroyer, and the Armed Reconnaissance Helicopter—only exacerbates this problem. And the increased burdens exacted by health care and other current personnel costs on the procurement and research, development, test, and evaluation (RDT&E) budget—those components that underwrite the present and prospective combat capabilities of the force—make the trade-offs facing defense decisionmakers even more difficult.²⁵

Above all else, however, is the structural problem associated with the need to maintain dramatically different kinds of combat capabilities for purposes of maintaining hegemonic order. The necessity of being able to quickly dominate the conventional battlefield against prospective regional adversaries requires complex joint and combined-arms capabilities spanning the air, land, sea, space, cyber, and possibly nuclear realms. A global power like the United States must be able to summon this “full spectrum dominance” in more than one theater simultaneously. Protecting the homeland, U.S. allies, and the U.S. armed forces against WMD across the continuum from deterrence to consequence management requires an entirely different set of capabilities. Although having receded considerably, the risk of major nuclear war involving the great powers has not passed sufficiently into irrelevance as to justify the disbandment of extant U.S. strategic capabilities. Defeating radical terrorist groups, conducting irregular warfare, and undertaking stability operations under varying conditions of threat all demand manpower-intensive capabilities involving diverse intelligence assets, Special Forces, and army and Marine Corps units. If the demand for these elements is seen to increase in what is currently an interlude in great-power competition, then the issues pertaining to the appropriate size of U.S. land forces, the lift capabilities required to transport them to extended battlefields, and the technologies required to defend them

²⁵ See the discussion in Richmond L. Lloyd, ed., *A Nation at War: Reconciling Ends and Means*, William B. Ruger Chair of National Security Economics Papers, no. 1 (Newport: Naval War College, 2005).

against lethal anti-personnel weapons all become subjects for budgetary competition. Finally, the necessity of hedging against the rise of a new great-power competitor, most likely China, will also demand advanced maritime and aerospace forces of great reach, endurance, and lethality, not to mention other capabilities that permit the United States to dominate the electromagnetic, cyber, and nuclear spectrums.²⁶

Developing a force architecture that services all these diverse objectives simultaneously, while remaining within a more modest defense budget than is currently the case, will tax the ingenuity of the next president. Whatever the solutions finally devised, they will be made incomparably easier to implement if the nation can focus on the fundamental challenges outlined earlier—namely increasing the size of the capital and labor pools, engendering new waves of radical technological innovation, increasing total factor productivity, and in general creating an environment favorable to growth at home in conjunction with sensibly managing the nation's affairs abroad.

While clarifying the nature of the United States' hegemonic role in the world and renewing the foundations of U.S. strength remain the most important tasks facing the next administration, these efforts will be less than efficacious if they are not accompanied by a determination to achieve the third foundational task: restoring the legitimacy of U.S. power. It is almost universally agreed that Washington's legitimacy has been eroded during the last eight years. Although many see this erosion to be a product of the Bush administration's "unilateralism," others perceive it to be the result of excesses associated with what may have otherwise been defensible policies. Still others view it as deriving from a betrayal of the deepest American values, as manifested through the constriction of civil liberties at home and the examples of Guantanamo and Abu Ghraib abroad.

While there is perhaps some truth in every one of these perceptions, the problem of legitimacy is at its core a vexatious one that cannot be easily resolved. The challenge here arises from the fact that U.S. power will always be used, at least in the final analysis, to serve the United States' own interests rather than the interests of some larger collective such as the international system. Ideally, of course, any self-interested exercise of power by the United States would also simultaneously serve some perceptible global interest, if not directly and intentionally, then at least as a positive externality. When such a convergence arises, the tension that may otherwise exist between U.S. self-interest and global collective interest is attenuated, and the relevant

²⁶ Ashton B. Carter, "Defense Management Challenges in the Post-Bush Era," in *Defense Strategy and Forces: Setting Future Directions*, Economics Papers 3, ed. Richmond M. Lloyd (Newport: Naval War College, 2008).

U.S. actions may enjoy the benefits of legitimacy. Unfortunately, however, there is no way to assure that such a felicitous situation will always obtain. In fact, it is far more likely, in a competitive universe populated by self-regarding states, that almost every U.S. action—including the use of force—will distress some state or another. It is simply unreasonable to expect the United States, or for that matter any other great power, to resolve this problem by pledging always to use force either solely in pursuit of collective interests or only after the creation of an appropriate international consensus. However desirable these solutions may be, they ought not to be expected in an “anarchic” international system without increasing the risks to U.S. sovereignty and the protection of U.S. national interests.²⁷ The challenge of securing international legitimacy for U.S. actions, especially those relating to the use of force, will therefore be an enduring one, and the structural difficulties involved in this effort can only be mitigated, never eliminated.

How is the United States to proceed then in such circumstances? Three rules derived from Machiavellian politics might offer a way out. First, succeed quickly. The success of political action, especially if decisive and characterized by resolution, often can transform what may have been initially axiologically questionable decisions into at least tolerated acts. Success by itself, of course, cannot guarantee that contested actions would garner legitimacy *ex post*, but failure almost certainly ensures that such initiatives would be loathed, perhaps enduringly. Consequently, for example, if the Bush administration’s war against Iraq was managed more competently, the deleterious impact of its problematic origins might have been mitigated.

Second, keep your friends close. However controversial the character of political actions may be—especially in regard to the use of force in circumstances other than direct self-defense—it makes sense for the United States to make the investment in securing collective support. Though it is desirable that such support be extensive, that may not always be possible. Hence, in certain circumstances, who supports the United States is as important as how many. Constructing “coalitions of the willing” that consist of minor and insignificant states will not increase the legitimacy of controversial U.S. actions but rather, by inviting derision, will actually detract from the grudging acquiescence that might have otherwise accrued to successful action undertaken unilaterally. In the context of contentious decisions regarding the use of force, above all else, what seems most fatal to legitimacy is to lose the support of the major powers, especially those known to be one’s friends and allies. Thus, for example, if the Bush administration

²⁷ See the discussion in Ivo Daalder and Robert Kagan, “America and the Use of Force: Sources of Legitimacy,” Stanley Foundation, May 2007.

had enjoyed the support of its own democratic alliance partners in the lead-up to the war in Iraq, the political circumstances surrounding this war might have turned out to be quite different.

Third, a decent regard for the opinions of mankind is always desirable. While the United States as a hegemonic power cannot be expected to be bound by the approval of others, being deaf to the views of others will neither ease the obstacles confronting its policy preferences nor strengthen its standing in the system over which it presides. Whether it can be formalized or not, the views, expectations, and interests of other states define the objective constraints surrounding all U.S. decisions in regard to high politics. Thus, attention to these compulsions not only increases the chances of successfully implementing critical decisions but also forewarns of pitfalls that must be avoided. In this context, the relationship between the United States and the opinions of mankind is not merely unidirectional, with the latter pressing upon the former; rather, Washington should be as much an active shaper of these opinions as it invariably becomes a target of them. The two instruments of critical consequence are classical diplomacy—which pertains to the engagement between countries behind closed doors—and public diplomacy—which pertains to the arts of shaping mass and elite opinion outside of the United States. Both skills, which Washington had perfected during the Cold War, appear to have atrophied disastrously. U.S. diplomacy today often consists predominantly of stating positions and then restating positions, rather than engaging creatively in an exchange of considerations. The U.S. Foreign Service also is under-strength, relative to the tasks that need to be accomplished. During the Cold War, U.S. public diplomacy successfully conveyed the magnificent diversity of the United States through independent organizations such as the United States Information Agency, the Voice of America, and Radio Free Europe/Radio Liberty (which were not subservient to the administration of the day). By contrast, U.S. public diplomacy has now degenerated into a pedestrian propaganda mill that is neither effective nor credible.

The next administration will therefore have its hands full tackling the myriad tasks necessary to restore the legitimacy of U.S. power. In beginning this effort, however, it should recognize two important realities. First, however egregious the Bush administration's failures were in this regard, the fundamental problem about legitimacy is one that is rooted in a complex interaction between U.S. self-interests, a competitive international system, and the asymmetric global distribution of power. Second, while it is certainly possible to do better than the current administration has in managing this issue, all efforts at striking a new course will rapidly come to grief if this elemental tension is not appreciated.

The United States and Asia

The foregoing discussion should have amply demonstrated the truth of the proposition advanced earlier: the principal challenges facing the next administration transcend Asia, but their successful resolution would empower Washington in its dealings with the continent, even as progress on some key Asian issues—for example, the wars in Afghanistan and Iraq and the nonproliferation threats posed by North Korea and Iran—would produce a virtuous feedback that enhances U.S. power. This volume, *Strategic Asia 2008–09: Challenges and Choices*, surveys the critical issues in Asia that will confront the next president as he takes office at the end of George W. Bush's tumultuous two terms. The last eight years have seen great changes in Asia, many of them a consequence of U.S. policies, but many others owing to different independent causes. The chapters in this book take stock of transformations that have occurred in various Asian countries and subregions with an eye to informing the incoming administration about the big challenges, dilemmas, and decisions facing the United States in regard to Strategic Asia.

In any election year, it will not be surprising to find many attempts at regional assessment similar to the one undertaken in this book. At a substantive level, however, this volume aims to distinguish itself by the approach taken in the country studies and regional studies chapters. These chapters take into account not only the impact of past U.S. actions but also the consequences of other variables—such as system-structural effects, economic performance, domestic political change, ideological ferment, and military challenges—to account for the condition of the country or the region as the new administration will find it. To accomplish this task in a coherent way, authors of those chapters have sought to engage the following issues systematically.

- What are the grand strategies or core national objectives of the country or the key countries in the region that are the subjects of analysis?
- What is the state of the country or region at the end of the Bush administration after the last eight years of U.S. policy and other independent factors are taken into account? Specifically, how have the following variables affected the grand strategy of the subject country (or the countries in the region) and contributed toward the key challenges that national leaders face at this moment in history?
 - the global war on terrorism and its effects

- the political and economic rise of China, and, where relevant, India, as part of the evolving change in the Asian balance of power
 - the phenomenon of globalization and economic integration
 - key domestic political changes, including issues of internal stability, governance, and ideology, as well as economic transformations occurring within a country or region
 - dimensions of regional stability as they relate to local or continental inter-state conflict, arms races, alliance formation, and WMD
 - critical issues pertaining to collective goods that impact the country or the region such as energy, the environment, climate, and public health
 - any other country- or region-specific issues that bear on strategic stability or critical U.S. national security interests
- Against this backdrop, first, what are the core issues and policies pursued either by the country or region or pertinent to the country or region insofar as these issues affect the United States or U.S. strategic interests? Second, how has the United States responded, and with what success, to these policy choices in the context of the seven structural issues discussed earlier and Washington's own strategic objectives? And third, if appropriate, what are the alternative U.S. strategies that can be envisaged and what are the advantages and limitations of each alternative?
 - Finally, what are the implications of the analysis for change in existing U.S. policies both in terms of goals and strategies?

The analyses that follow suggest that the United States, while certainly doing well in Asia by many measures, nonetheless is confronted by major challenges in Asia that span the gamut of U.S. foreign policy: winning the war on terrorism and the struggle against Islamist terrorism—issues that implicate Afghanistan, Iraq, Pakistan, India, Bangladesh, Australia, and the Central and Southeast Asian states; preventing further proliferation and the use of WMD—an issue that implicates the Korean Peninsula, China, Japan, Iran, Pakistan, and India; managing the rise of new (or returning) great powers without undermining the existing U.S.-dominated global order—an issue that implicates China, India, Russia, Japan, Australia, and Southeast Asia; assuring the requisite level of public goods, especially stable access to energy, a clean environment, and mitigating global climate change—an issue that implicates Russia, China, India, Japan, Central Asia, the Gulf states, and the Southeast Asian tigers; and controlling regional rivalries and

the threats of armed conflict among critical dyads—an issue that implicates North and South Korea, China and Taiwan, China and Japan, China and India, China and Russia, China and the various Southeast Asian states, and Iran and the Gulf states.

Many of these issues find reflection in Richard Betts' wide-ranging and theoretically informed assessment of the key challenges facing the United States in Asia. Betts points to the fact that the next president will have no choice but to attend to the incomplete tasks of winning the war on terrorism in South Asia and managing nuclear proliferation at opposite ends in Northeast Asia and in the Persian Gulf. Betts nonetheless holds that the key strategic challenge for the United States over the long term will be coping with the rise of China, which could be the single most disequilibrating event in international politics. Whether the next administration will have either the energy or the resources to attend to this issue remains to be seen, since the backlog of unfinished business on other fronts is so deep and enervating. Betts argues that the twin facts of rising economic interdependence and the United States' own liberal instincts further suggest that U.S. strategy toward a rising China for the foreseeable future will likely be a conflicted one, an uncomfortable marriage of elements of the realist and the liberal traditions—at least until China's own geopolitical intentions become clearer or some crisis, such as over Taiwan, suddenly unfolds. What makes the challenge of managing China even more problematic, at least in the near term, Betts notes astutely, is the fact that new regional crises elsewhere are certain to emerge and, in all probability, will precipitate U.S. military interventions in areas no one really anticipates today—that at any rate has been the unbroken record of the postwar period. Surveying the multiple challenges the United States faces in the region, Betts concludes—consistent with the larger arguments made in this overview—that protecting the U.S. position in Asia requires emphatically “changes in economic policy and performance” at home.

Eugene Rumer's chapter assesses the challenges posed to the United States by Russian resurgence in Asia. Almost given up for dead, Russia has staged a comeback of sorts in international politics largely on the strength of rising commodity and energy prices. This revival, however, is far more fragile than Moscow's blustering might suggest because Russia confronts serious and still unresolved problems relating to demography, infrastructure, the industrial base, and military capability. In comparison to China, for example, Russia's trajectory could not be more sharply in contrast. These facts notwithstanding, the Russian recuperation has resulted in a new determination by Moscow to assert its influence along its periphery and in Europe more generally. This intention obviously collides

with the U.S. and Western European commitment to expand the North Atlantic Treaty Organization (NATO) further, with the resulting conflict exacerbating other disagreements over Iran, energy and pipelines issues, and the direction of Russian domestic politics. Because the United States and Russia still share important common interests—including those related to nuclear stability, managing the rise of China, and controlling Iran's nuclear ambitions—Rumer convincingly argues that Washington ought to stay engaged with Russia, despite all the frustrations. The United States certainly does not enjoy the luxury of ignoring Russia and there is good reason to believe that U.S.-Russian relations can be much better than they currently are. In an effort to achieve such an improvement, Rumer advances the sensible idea that the issue of NATO enlargement—one of the biggest thorns in the bilateral relationship—warrants major reassessment not with the intent of reversing the current policy but to re-evaluate the priority assigned to NATO enlargement in U.S. policy. A similar argument could be made with respect to democratization in Russia. As Henry Kissinger has argued so cogently, at a time when Russia itself is struggling with new arrangements of governance, an “assertive intrusion into what Russians consider their own sense of self runs the risk of thwarting both geopolitical and moral goals.”²⁸

Today there can be little doubt that China and its future, and especially the character of its relationship with the United States, remain the most critical issues in global geopolitics. As Michael Swaine's chapter in this volume points out, not only has Beijing experienced a remarkable growth in its national power and diplomatic influence during the last eight years, but Sino-U.S. relations also subsist on a far more even keel than appeared to be possible at the beginning of the Bush administration. U.S.-China relations have improved as a result of a combination of events: the tragic convulsions of September 11, Chen Shui-bian's ham-handed efforts at pushing the independence envelope in Taiwan, the administration's need for Chinese cooperation in restraining the DPRK's nuclear program, deepening Sino-U.S. economic ties, and Beijing's own nimble shifts in international behavior. Yet, as Swaine perceptively points out, this increasingly cooperative relationship hides a deep-seated and fundamentally corrosive distrust because the continuing growth in Chinese national power presages a consequential power transition that could end up dethroning the United States as the reigning hegemon in global politics. Understandably, the fear that this could be the inevitable outcome of current trends leads Washington to hedge against the growth in Chinese power, and the fear that

²⁸ Henry A. Kissinger, “Finding Common Ground with Russia,” *Washington Post*, July 8, 2008.

this hedging could mutate into active attempts at constraining the expansion of Chinese capabilities over time leads Beijing to, in turn, prepare for the worst eventualities. The mordant consequences of the security dilemma, then, portend a far more difficult bilateral relationship than appears to be the case right now. Swaine argues that avoiding the worst outcome requires the United States to fashion “sophisticated policy approaches toward Beijing that enhance the incentives for positive-sum outcomes.” But what remains to be seen is whether even such sagacious undertakings—which require “persistent efforts to [simultaneously] deter, dissuade, reassure, and enmesh”—will suffice to overcome the fundamental antagonism between these two states at the ontological level of competitive international politics. Meanwhile, the best the two countries can do is to seek to deepen their ties across the board, remain engaged with one another, attempt to clarify why constructive relations are in their mutual interest, and resist the temptation to demonize the other.

If there is any state in Asia that is most affected by the rise in Chinese power, it is Japan. T.J. Pempel’s chapter in this volume describes a Japan that—while being extremely attentive to this challenge and to a lesser degree the threat posed by the DPRK—reassuringly still views its alliance relationship with the United States as its first line of defense. Although Tokyo has engaged in a steady modernization of its already formidable conventional air and naval capabilities during the last decade and has, with U.S. encouragement, sought to expand its international role through among others institutional innovations at home, Japan has nonetheless moved gingerly thus far. Japan has remained intent on protecting its national security through implementing greater interoperability with the U.S. military, seeking a gradual redefinition of its own role in the context of larger global responsibilities, and aiming to develop some core defense industrial capabilities. Pempel argues that Tokyo has nevertheless sought to anchor its strategic interests in a vision of “comprehensive security” that includes energy, food, health, and environmental concerns in addition to national defense. Pempel notes that the principal near-term challenge will be to reassure Japan that the United States will remain a steadfast ally cognizant of Japanese interests in regard to issues such as the abductees, Taiwan, and China even as Washington seeks to pursue its other interests with Pyongyang and Beijing. He expects that resolving the explicitly bilateral issues pertaining to U.S. forces in Japan, advanced weapons sales, and the like will strengthen the foundations of reassurance as will engaging Tokyo on the other issues such as energy security and climate change. Finally, he concludes that Washington’s ability to maintain positive relations with both China and Japan would reduce the temptation for each to view the other

as a threat, but he acknowledges the difficulties in getting the balance right given the perpetual fears in Tokyo of being either entrapped or abandoned by the United States.

Jonathan Pollack's masterly survey of developments on the Korean Peninsula centers on one often overlooked strategic fact: that the United States today, for the first time in recent history, has become central to the destinies of both North and South Korea, despite the overwhelming differences in the nature of their political systems, their levels of achievement, and their future trajectories in regard to national success. Both states are no doubt tied in complex ways to other regional powers such as Russia, China, and Japan. The Korean states' relations with the United States, however, have indeed become pivotal to their ability to achieve current national goals—survival for North Korea and increased autonomy for South Korea—because of their preference, as Pollack phrases it, “to deal with one another, if at all, through their separate ties with the United States.” The United States, thus, remains the fulcrum on which the success of both North Korea's denuclearization and South Korea's quest for a successful international role hinges. Yet, as Pollack points out, while Washington supports each of these objectives in different ways, crafting successful policies has always been a challenge because of the volatility of domestic politics in South Korea, the idiosyncrasies of North Korea's leadership, the complexity of intra-Korean relations, the interests of other geographically proximate great powers, and the transformations that have been underway in the bilateral U.S.-South Korean relationship for some time now. Consequently, despite the presence of a formal alliance, Pollack warns against easily assuming an automatic congruence in U.S. and South Korean policy goals, which for the foreseeable future will be challenged by the difficult tasks of completing the denuclearization of North Korea and assisting that state to evolve in more normal directions, while preserving stability on the peninsula in the face of rapidly evolving South Korean demands for change.

Rory Medcalf's chapter on Australia's strategic transition assumes special contemporary relevance because Canberra has traditionally been a steadfast U.S. ally globally—as evidenced most recently by its decision to support the U.S. invasion of Iraq during the first term of the Bush administration. The rise of China and its growing economic links with the Asia-Pacific region, especially with Australia, have raised questions, however, about whether the customary Australian support for the United States would survive in the event of a Beijing-Washington clash of interests, for example, in Taiwan or elsewhere. Medcalf presents a penetrating analysis of Australia's dilemmas, which reflect those of many other Asian states that profit from growing interdependence with China. He suggests that any U.S. policy will come to

grief very quickly if it compels the United States' Asian partners to make hard choices between Washington and Beijing in circumstances where their security is not threatened directly by China. Equally importantly—and with significant implications for the United States—Medcalf notes that Canberra remains far less concerned than Washington is by the rise of Chinese power. On the face of it, such a response should not be surprising. On one hand, this response reflects the magnetic pull exercised by adroit Chinese diplomacy and the payoffs associated with maintaining profitable economic relations with Beijing. On the other hand, it demonstrates that middle powers in the international system are likely to be less threatened by the emergence of a new rising power than by the reigning hegemon (particularly if the rising power offers a variety of political and economic benefits). This is because the risks to the prevailing hegemon are always more acute in the context of any prospective power transition. The need for a subtle U.S. policy in Asia in the face of such realities is, therefore, imperative. To its credit, the Bush administration managed to pursue a more sophisticated policy in Asia than elsewhere, but even this does not seem to have mitigated the mixed feelings that Medcalf reports the Australian public increasingly harbors about the bilateral alliance. A willingness to listen to Australian concerns may go some way in remedying this slide, but Canberra's own changing interests suggest that the traditional image of Australia as the most allied of U.S. allies may well be a thing of the past.

While U.S. relations with most other Asian powers during the last eight years have been characterized by greater continuity than change, precisely the opposite is true as far the principal powers of South Asia are concerned. During the tenure of George W. Bush, both India and U.S.-Indian relations changed dramatically and for the better. After many decades of stagnation, India is finally set upon a path of high growth that will make it a major global power in time, even as it has successfully managed the twin tasks of keeping a diverse country together while maintaining a flourishing democracy. Teresita Schaffer's chapter on India confirms the resilience of the country's success but flags the serious vulnerabilities arising from still unresolved problems of equity, burdensome dependence on foreign sources for energy, and—most problematic of all—being surrounded by states that are in varying degrees of decay and failure. Managing these threats successfully depends in some measure on the quality of India's external economic and political relationships. Schaffer reports that India has been remarkably successful in balancing a complex set of ties with various countries that sometimes are at odds among themselves. In this context, the transformation of U.S.-Indian ties, which has occurred thanks to the actions of George W. Bush, Atal Bihari Vajpayee, and Manmohan Singh, not only

has bilateral significance but also has rather important implications for the emerging balance of power in Asia. The chief challenge to this relationship in the years ahead will be reconciling U.S. expectations of India with New Delhi's obsession with "strategic autonomy." This task can be successful, Schaffer concludes, if both countries develop common approaches on issues where their interests already converge and if the United States can find ways to accommodate Indian aspirations in regard to regional integration and particularly global governance.

While India's evolution remains the bright spot in South Asia, the terrain covered in Polly Nayak's chapter—Pakistan and Bangladesh—evokes only unremitting and remitting gloom respectively. Both Pakistan and Bangladesh are fragile and dysfunctional states. While Islamabad presides over a flailing, if not a failing, polity, Dhaka mercifully is in a better position. If Bangladesh can surmount its problems of governance, caused mainly by the weakness of its key political parties and problematic civil-military relations, its otherwise reasonably impressive economic and developmental gains could enable the government to oversee a successful state. The usurpationist role played by the Bangladesh Army, however, does not bode well for long-term stability, and the succor offered by the country's military and intelligence services to radical Islamist fundamentalist groups, in order to strengthen the former's power in domestic politics, could presage down the line exactly the kinds of problems now witnessed in Pakistan. Nayak concludes, somewhat consolingly, that Bangladesh's problems seem likely to grow slowly enough to be manageable, but that this conclusion hinges on continued U.S. engagement and particularly generous foreign aid for a country that has been traditionally a friend of the United States. In contrast, Nayak's prognosis for Pakistan is much more gloomy. Although committed Islamists remain only a small proportion of its population, Pakistan's battered political institutions, self-serving and often predatory military, and unsavory history of breeding radical Islamist terrorist groups have now all combined to create a state that cannot exercise sovereignty over important parts of its own territory from which major threats to regional and global security emerge. Nayak's tale here is indeed tragic because the U.S. war on terrorism, in principle, should have assisted Pakistan in combating these problems. The manner in which Washington implemented its engagement with Islamabad—betting excessively on a military regime to deliver against al Qaeda while refraining from pushing it to make a clean break with all terrorist groups even while giving short shrift to rebuilding civilian institutions—only appears to have made things worse. The current—and unenviable—outcome is that the civilian and the military arms of the

Pakistani state seem paralyzed in regard to both the war on terrorism and the larger task of governance.

Even more than the states of South Asia, Evelyn Goh's survey of the Southeast Asian world suggests a strong and unwavering demand for the right kind of U.S. presence and engagement with the region. Given the area's proximity to a rising China—which attracts even as it unsettles—Southeast Asian dependence on the United States for deterrence and reassurance is likely to remain high, irrespective of what Washington's other failings might be. Goh emphasizes, however, that although the region would welcome renewed, but not overbearing, U.S. attention, key regional states are nonetheless focused on diversifying their "strategic dependencies" to include increased engagement with China. Their aim is to enmesh China while reaching out to other major regional actors, such as Japan and India, in an effort to balance the growth of Chinese influence. Mindful of the recent successes of Chinese diplomacy, this Southeast Asian interest in diversification is likely to increase further and though the regional states benefit from a strong offshore U.S. military presence, their ability to transparently support U.S. policies, especially when controversial, is nonetheless limited by the large Muslim populations that reside in many of these states. The best recipe for continuing U.S. success in Southeast Asia, Goh concludes, consists of maintaining a strong offshore military presence capable of maintaining hegemonic order should this be threatened, without either pursuing the "outright containment of China" or leveling burdensome demands in the individual bilateral relationships with key states, while continuing to participate in regional institutions.

S. Frederick Starr's insightful analysis of Central Asia suggests that the key distinguishing feature of this region is the presence of infirm states still struggling to complete the nation-building project in an environment marked by the presence of stronger powers and a major ongoing conflict. These challenges are particularly stressful in Central Asia for two reasons. First, the countries in question are still remarkably young, having received their independence only recently with the fall of the Soviet Union. Second, the one major development that could open the doors for an economic integration with South Asia—peace in Afghanistan—does not appear to be on the anvil. The latter handicap is particularly burdensome because it offers the region an escape from excessive dependence on either Russia or China and thereby presents a means of protecting the independence of these states vis-à-vis their most powerful immediate neighbors. While U.S. policy toward the region enjoyed early successes, the unbalanced focus on democratization produced some reverses along the way. Starr cogently argues that the best way to ensure the long-range development of Central Asia is

to win the war in Afghanistan because that would resolve the problems of transit and access as well as eliminate the major source of extremist Islam in one go. If the conflict in Iraq defined the Bush administration, assuring that the war in Afghanistan is finally successful will likely become among the most important preoccupations of its successor. As Starr succinctly phrases it, “the alternative to success is ominous, imposing costs in many areas besides the purely financial.” Restoring equilibrium in U.S. relations with Central Asia will become important in this context as well. Toward that end, deepening economic ties with the region’s states; pursuing balanced and “mutually reinforcing” policies toward them; coordinating with key partners such as Japan, India, and the United Kingdom; and staying the course consistently over the long term will become key ingredients of a successful U.S. policy.

This volume includes three special studies on different issues of current relevance. The vexatious problem of dealing with Iran’s nuclear ambitions remains the focus of one special study. Unlike last year’s volume, which examined the domestic determinants of Iran’s nuclear decisionmaking, the present study by George Perkovich surveys the choices that the United States has for reversing Tehran’s nuclear course. If the objective of international efforts should be terminating Iran’s capacity to enrich uranium—because mastering this capability would put Tehran within easy reach of producing a simple but effective nuclear device—the bad news is that there are few good options for doing so. Perkovich notes that fostering regime change or pursuing military operations, primarily air attacks, would only make the Iranian regime more obdurate in its determination to acquire a real, as opposed to a potential, nuclear capability. Permitting limited enrichment, or enrichment under international safeguards, is appealing as a means of avoiding confrontation with Tehran but brings Iran ever closer to the bomb and only creates conditions that beg Tehran to break out in the event of a crisis. A broad and direct strategic dialogue between the United States and Iran may seem attractive as a means of conveying reassurance, but there is no guarantee that Tehran will not pocket this initiative and up the ante by demanding more. Even if such a dialogue is successful, however, it is not certain whether Tehran under the current dispensation would agree to suspension of enrichment as the end product of this process. The cold reality is that Iran abundantly appreciates that the current U.S. ability to coerce it into terminating its nuclear program is minimal—not because degrading its capabilities is technically infeasible, but because the costs of such actions would be very high. Tehran also recognizes that the international community would prefer the absence of an Iranian nuclear program but that individual states are simply not prepared to undertake the necessary

burdens associated with collective action to achieve this end. Consequently, Perkovich suggests that the best near-term solution is to withdraw all the carrots currently offered to Iran and essentially wait it out by implementing long-term sanctions until Iran changes course—holding the country in the meanwhile to its commitment not to build nuclear weapons. Given the paucity of options at this juncture, this approach should at least be debated because it could well become, in different packaging, the position the international community eventually gravitates toward in its efforts to control the Iranian nuclear problem.

Another special study, also on an important issue of national security, is Admiral Dennis Blair's innovative and systematic assessment of power projection capabilities in Asia. The economic capabilities of the major Asian states are increasing rapidly, and the fears that such capabilities could be transformed into military instruments have not abated. Blair's study reaches the reassuring conclusion that the power projection capabilities—the military instruments able to apply power at distance with some persistence—of the major Asian states such as China, Japan, and India are still limited and, to the degree that they are increasing, are most likely to be deployed in coalition operations cooperatively. Blair's chapter is important for another analytical reason: it remains perhaps the best recent effort to systematically unpack the components encompassed by the term “power projection,” which originated as, and still predominantly remains, essentially a naval concept. By decomposing the concept into its constituent parts, the chapter provides a useful framework to judge the changes in power projection capabilities that may occur in Asia over time. A transparent elucidation of the term, as found in Blair's chapter, should also lay the foundations for a more intensive debate over the political aims of various Asian great powers and the likelihood that their long-term objectives (insofar as can be discerned or hypothesized) would either require the creation of such capabilities for the effective exercise of power or permit them to successfully secure influence through other kinds of military instruments. In any event, the key policy insight deriving from Blair's chapter is that the United States is currently blessed with extraordinary capacities for globe-girding reach and so long as U.S. policymakers make the prudent marginal investments required to sustain this superiority, they can contribute toward prolonging the “Asian miracle” by sustaining the hegemonic peace that precludes the regional states from having to produce order through their own military exertions.

The third special study in this volume focuses on a much neglected but critically important issue: water. Although ordinarily treated as a matter of low politics, the emerging era of water scarcity in Asia could easily transform the issue into one of high politics—particularly if major water

diversion schemes of the kind currently contemplated by upper riparian states such as China and India provoke conflicts with neighboring states. Elizabeth Economy's chapter on this subject is critical because it first elucidates the immensity of the challenge posed by water security to Asia's emerging giants, China and India. The most immediate consequence of the growing demands for water amid the emerging scarcities could be internal unrest, with external conflict becoming an extended consequence if states lapse into the temptation of seeking unilateral solutions to protecting their access to water. Access to water (or the lack thereof) in Asia will also be affected by the larger issue of global climate change. Consequently, the opposite problems of flooding and droughts, with all their associated social dislocations, will demand new attention on the part of the major Asian states. Economy argues convincingly that the emerging water crisis in Asia offers the United States a tremendous opportunity to exert its soft power by aiding the region in developing strategies for water management, mediating in situations where inter-state disputes are likely, and by leading the formation of a new consensus on mitigating climate change. Besides all the advantages ensuing from the resulting global approbation for U.S. leadership, Washington would also have made a tangible contribution to advancing human security in some of the most populous and fastest-growing regions of the world.

Conclusion

Taken together, the studies presented in this volume convey clearly the diversity of the challenges that will face the United States in Asia. When assessed synoptically, however, the U.S. position in the continent can be seen to be still remarkably strong. The most critical near-term challenges remain bringing the current wars in Afghanistan and Iraq and the ongoing struggle against radical Islamist movements to a successful conclusion, while managing the threats of proliferation in North Korea and Iran. Although the United States has not yet mustered a winning solution to the Iranian challenge, one can at least hope that the other outstanding problems will meet satisfactory endings either through the current policies or through some modification of them. The most important longer-term challenge, however, will be coping with the rise of China because this event portends the possibility of a consequential power transition at the core of the global system and, by implication, the displacement of U.S. hegemony. Preparations for dealing with this prospect cannot be postponed interminably and, in fact, a major challenge for the next administration will be finding the resources—material, ideational, organizational, and temporal—necessary

to address this issue even as it is engulfed by the demands of resolving the plethora of other challenges that will absorb its attention in the short term.

To make things more difficult, the United States will not enjoy the luxury of having a single grand organizing concept such as containment to guide its efforts in meeting this challenge. The Bush administration did formulate a sensible alternative approach, that of maintaining “a balance of power that favors freedom,”²⁹ but unfortunately, due to distractions, never either systematically elucidated the concept or defended its logic relative to other competitors. The next administration will need to do better. But the incoming president will soon discover that so long as maintaining strategic advantage remains the enduring goal of the United States, there will be no alternative, at least in the near term, to pursuing policies that embody subtlety, agility, and endurance—and that the chances of success accruing to these approaches improve greatly if the country can redefine its role, renew its strength, and recover its legitimacy effectively.

²⁹ Condoleezza Rice, “A Balance of Power That Favors Freedom” (Walter B. Wriston lecture to the Manhattan Institute, New York, October 1, 2002), <http://www.manhattan-institute.org/html/wl2002.htm>.