

George Friedman: The End of the International Order and the Future of Asia

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Podcast music: [Blindhead and Mick Lexington](#).

DEVIN STEWART: Hi, I'm Devin Stewart. I'm here at Carnegie Council in New York City, and today I am speaking with George Friedman. Mr. Friedman is founder and chairman of [Geopolitical Futures](#), which analyzes and forecasts the course of global events.

George, thank you so much for speaking with us today.

GEORGE FRIEDMAN: I'm glad to be here.

DEVIN STEWART: You've been looking at geopolitics for decades. What do you make of the world today? How do you see the big picture of the geopolitical environment around the world? Where are we today in international affairs?

GEORGE FRIEDMAN: The period that began at the end of [World War II](#) is coming to an end. That period included a commitment to multilateralism, to free trade, and really to technocracy, to the idea that experts should be governing.

The year 2008 created a systemic crisis; it wasn't just a [financial crisis](#). It raised serious questions about whether interdependence was good or not, because interdependence was what took the virus of the [subprime crisis](#) and made it a global event and exposed all sorts of exporting countries to problems. It raised really the question of whether multilateral organizations are inherently superior to bilateral, and also raised the question on the part of many countries about whether their own interests simply coincide with those of the international system.

So we had a very long period, as long as any in American history, with certain conventional wisdoms. In 2008 they were all challenged, and now all these things are being challenged by the international system. In Europe you have nationalism rising, or reemerging, against multilateralism; you have the idea of vast multilateral trade relations being challenged; and in the course of this powers are rising and falling, as they always are, with the usual tension. So part of it is the normal coming and going of geopolitics, and part of it is a systemic change.

DEVIN STEWART: Do you see something replacing the old system or do you think there's hope for rejuvenating the multilateral system?

GEORGE FRIEDMAN: Well, the old system was a freak. I mean when we go back a long way there are periods of multilateral cooperation, like the [Congress of Vienna](#) or like the [League of Nations](#) and the United Nations. They generally didn't work because the nation-state remained the foundation of the way people lived. We saw it in Europe again. It's all very well to assert that you are European and not French or not Hungarian, or what have you, but the fact is that the people of these countries see themselves as that.

So what I see us doing is returning to a more normal structure in which the nation-state is dominant, international trade is intense but managed by states for their own benefit, and where this idea that the nation-state is obsolete goes away.

DEVIN STEWART: During periods in which the nation-state is central, a lot of times there is nevertheless a hegemon in the dominant powers. Do you see America continuing to be the dominant power?

GEORGE FRIEDMAN: It is the overwhelming power—not necessarily the wisest power—but it constitutes about one-quarter of the world's economy. It is the first power in the history of the world to control all the world's oceans, or have the ability to do so if it wants to, and it is the only power able to project military forces simultaneously around the world. There is no comparable power. We tend to evaluate underlying geopolitical strength on the basis of the latest headlines, or even more peculiarly, on a president who will come and go in a short period of time. But the fact is that's the underlying reality of the United States.

For example, when you look at the [Asia-Pacific Trade Agreement \(APTA\)](#), the idea of China replacing the United States as leader is kind of silly. China is a net exporting country. It exports products very similar to the other Asian countries, so how does China go from being a competitor with these countries to being their leader?

There's much that is being said that is not practical, but no one really understands—or no one tries to understand, I should say—the underlying power. So the United States is certainly the preeminent power.

DEVIN STEWART: You mentioned China as the country that people mention as the challenger to U.S. power often in popular articles. What do you make of the strategic environment in East Asia and the United States' relationship

with Asia?

GEORGE FRIEDMAN: There are multiple dimensions to this. One is the trade dimension, in which case China is heavily dependent on the United States because it's an exporting power and the United States is not. It may be very successful as an exporting power, but nevertheless its success depends on the ability of its customers to buy.

This is what happened to China in 2008, and to all exporting countries. They discovered that their economic miracle was utterly dependent on the economic health—in the case of China—of the United States and Europe. If they couldn't buy, China's economy couldn't function. In fact we had a crisis of exporters everywhere. All exporting countries—with to this point the exception of Germany—heavy exporting countries, wound up getting knocked back very hard. It then turned into exporters of primary commodities, and when it was realized that China was not going to return to the way it was, the price of oil plunged. There were other reasons as well; but now Russia and Saudi Arabia—

So what we discovered in 2008 was that in times of global prosperity, and we have been in one, being an exporter is a wonderful thing. In a time of global stagnation or economic weakness, being an exporter is a very dangerous vulnerability. So you begin with the fact that China's great power, its ability to export, has now become a real challenge to China.

At the same time, the Chinese want to deal with the [South China Sea](#), North Korea, and everything else, and they're failing. Their claims to the South China Sea are challenged, and China is in no position to really push it forward.

The very best we can say about China and North Korea is that China cannot get North Korea to do what it wants, assuming that it's even trying to do so, which raises the question: If you're really a great regional power and you can't even get your neighbor who is developing a nuclear force to back down, in what sense are you a great regional power?

So a lot of these things that have been given, the rise of China, for example—and it has certainly risen—are now facing the real vulnerabilities of power, and the difference between China and the United States is those vulnerabilities.

DEVIN STEWART: Taking the big picture of the return to business as usual away from multilateralism and the centrality of the nation-state, does that carry with it specific risks when you look at East Asia or elsewhere?

GEORGE FRIEDMAN: Well, if you're an exporter, it carries enormous risks. If you are an importer, it puts you in a very powerful position. Any businessman knows that his customer, when he has a lot of competitors, is in a power position. So if you take a look at China, who now has competitors all through the world, its price advantage has sort of deteriorated. The loss of a free-trade environment is a great problem. For the United States, which is a customer, it puts it in a very powerful position of being able to pick and choose and set the terms.

Free trade is frequently presented as a moral issue; you must engage in free trade if you want to be a decent country. But trade is trade, and there's a buyer and a seller, and depending on the economic reality, one or the other sets the terms.

DEVIN STEWART: Do you see a coherent U.S. policy toward East Asia emerging under the [Trump administration](#)? What do you make of that?

GEORGE FRIEDMAN: There's very little change in the U.S. administration. First, the United States maintains its close relationships to Japan and South Korea. Second, as under the [Obama administration](#), there is a feeling that China must restructure its trade relationship with the United States. Third, going back to the [Clinton administration](#), the United States is not prepared to accept a nuclear North Korea.

So what I see is simply continuity. Very few of the things that [Trump](#) has done in foreign policy anywhere, but certainly that he has done in Asia, are anything more than continuations of what was going on, the difference being he has taken them to their logical conclusions. In other words, rather than having the constant bickering and friction with China over trade, which was the case in the [Bush](#) and Obama years, he is at various points—and he's still trying to settle into what he's doing—saying: "Look, we have this problem. It will be changed. It will be changed either through a mutual agreement or unilaterally." Which actually was pretty much what was being said, that the relationship will change.

DEVIN STEWART: And when you say its "logical conclusion," do you also mean the return to sort of bilateral agreements away from multilateralism? Do you think that in a sense Trump is being sensitive to the new era in which we live?

GEORGE FRIEDMAN: He's certainly more responsive to the price of free trade. The price of free trade may raise, in the end, the aggregate revenue of a country, but it doesn't take into account two things: How long does it take to realize that benefit, and how is the benefit distributed?

One of the problems of the period of intense free trade was that a massive inequality emerged. Inequality emerged because different sectors of the economy were benefiting, others were being harmed, and it's kind of where you sat that determined whether it was beneficial.

Second, while [David Ricardo's theory of comparative advantages](#) may be true, the question is how long does it take for the comparative advantage to show itself? So let's assume that it would take 50 years for the comparative advantage of the United States to show itself; that's a lifetime for a citizen, for me and you.

So in the abstract, if you look at the gross domestic product (GDP), well, yes, free trade works. If you take a look at how the GDP is distributed, or in what length of time it works, it's extremely troubling. This has been a long-term criticism of free trade. And interestingly enough, it came primarily from the left; it came from trade unions in the United States and others. What the difference is—and this is interesting politically—is that Trump is caught in the contradiction between various factions and the things he's said and so on, but he's brought the idea of free trade as a problem into the Republican Party.

DEVIN STEWART: I remember a while back you came to Carnegie Council and you [spoke](#) very positively about the influence of Japan and Japan's very powerful role in East Asia given its powerful military, its wealthy economy, good education system, and so forth. Are you still bullish on Japan?

GEORGE FRIEDMAN: Yes, increasingly. Look, China has about a billion people living in relative poverty. The China that everybody praises is a coastal strip—very important. But it is linked more to Walmart than to the rest of China. One of the things that [Xi Jinping](#) is doing by imposing a dictatorship is trying to pull the coastal region back into a relationship with the rest of China, transferring wealth, and so on, and to do that he has to conduct a fairly extensive purge. So China is a country where the underlying contradiction of its expansion is that while it touched a minority of China and made them relatively wealthy in a global scale—many individuals are enormously wealthy—it has not fully touched the interior, and that has led to political consequences.

Japan doesn't have this problem. Japan is fairly homogeneous. It is a well-integrated and socially stable society. It is also the third largest economy in the world, assuming that we accept Chinese figures on the size of their economy, and there's a lot of debate on what those numbers are. But there's no question that in Asia the largest and most stable country is Japan. It has a substantial military, which it tries to downplay. It doesn't really want to play the role of leader in the region. It's quite happy to have a relatively subservient position to the United States.

All this is true, but when you take a look at the tensions within China and how much of it is incomplete, and the

socially stable way in which Japan managed its [financial crisis back in 1990](#) without social upheaval, without dictatorship, without all these things, this is clearly the more stable and viable country. And what is extraordinary is, for all its troubles and the extent to which it has been written off by observers, this is still the third largest economy in the world.

DEVIN STEWART: What are the implications of Japan's success? Do you think it could take a stronger leadership role or be a model for other countries at all?

GEORGE FRIEDMAN: I'm always careful of "strong leadership role." It implies nations are a club and somebody is going to be elected the head of it.

Japan pursues its own national self-interest, as all countries do. Its primary vulnerability is that it imports almost all raw materials; it has no oil, it has no iron ore, it has no bauxite. It is content to let the United States manage those trade routes, and so long as the United States is prepared to guarantee Japan's access to oil or minerals, it's quite content in that role.

Should China become more assertive than it has in the [East China Sea](#) around Japan, the Japanese will respond, as they have. Should the United States abandon that role or—not really conceivable—become hostile to Japan's access, Japan will respond. It is now in the ideal position for itself, which is that it doesn't have to assert itself politically—Korea potentially a different matter. But it has no desire to be the leader; it has no desire to be responsible for the rest of the region. It is content—and this is an important case of nationalism—to maintain its bilateral relationship with the United States, trade with the world, and try to stay out of trouble.

DEVIN STEWART: Have we reached a sort of equilibrium in East Asia that will stay put for a while, or do you see things changes in the near future at all?

GEORGE FRIEDMAN: Well, Xi imposed a dictatorship in China. He imposed it not because he felt power-hungry but because he understood the instability of China. China's transition from a very high-growth nation to a more modest-growth nation has significant economic and social impacts. He's trying to manage them.

Now he's managing them fairly well, but underneath that layer, those tensions are still there; the people who did not participate in the great wealth surge are not happy. The people in the coastal region who benefit from massive international trade are concerned about not having access to it, the United States, for example. There are a lot of issues.

There are emerging countries like Indonesia, which is also going to be struggling with internal crises. There is one country that isn't struggling with internal crises; that's Japan.

So we are seeing a rotation. I see China as a country that has risen dramatically, primarily because it was in such terrible shape at the end of [Mao's](#) reign that virtually anything they did would be magnificent. But they have the old Chinese problem: They haven't solved the problem of inequality between the coast and the interior. And of course it was to the interior that Mao Zedong made the [Long March](#) to raise a peasant army and [challenge Chiang Kai-shek](#).

Now Xi and the [Communist Party](#) are extremely aware of the history of China, extremely aware of the dangers of unemployment, extremely aware of what economic dislocation can do, and so they are managing it. At the same time, they are trying to assert themselves as a significant global power. They're not. They are doing everything they can to appear to be, but they're not. So the real problem is going to be this rotation between China on the one hand, as it tries to find some balance at much lower levels of expectation, and the Japanese, who are a very stable platform, as they have been for over a century on the boundaries of Asia.

DEVIN STEWART: Any words of advice for U.S. foreign policy, given that current state of affairs in East Asia?

GEORGE FRIEDMAN: One is—leaving the Korean question aside—do not overestimate the Chinese. They are not a peer military power; they are a vulnerable economic power, and use those vulnerabilities. There is a fantasy in the United States about China's massive capabilities that's built around, for example, this notion of [One Belt, One Road](#), a preposterous idea that is going to create a nonmaritime trade route traveling through some of the most unstable countries in the world. It's not going to happen. But there is a cheering section in the West, particularly in the United States, to China that's causing, interestingly, the exact opposite effect of what they want. They're convincing people that China is a great and rising power, and the next sentence is, "and we better do something about it."

Well, my argument is we don't have to do anything about it because they're not rising nearly that fast. But it's precisely the enthusiasts for China that are panicking others.

DEVIN STEWART: Why do you think that some Americans are so enthusiastic about China?

GEORGE FRIEDMAN: There has been an American fascination for China going back to the 19th century with the great missionaries. But this basically was a period of time when investment bankers made a great deal of money taking Western companies into China and investing.

They also have another illusion: Huge amounts of money are coming out of China, and they're reading this as Chinese wealth surging in the world. It should be read as capital flight. Japan in the 1990s, when Japanese investors bought Pebble Beach and Rockefeller Center, they were doing that because they knew how dangerous the situation was in Japan—they were getting money out. This huge amount of money surging out of China is people who understand, the insiders who understand the problems in China, getting out.

But it's easy to see this money flowing out, and it's easy to talk to the Chinese who will say in confidence about explaining, "If you're so confident in China, why don't you invest there?" It's easy for the psychology to shift. And there are people who benefit from that, who make money out of making certain that this trans-Pacific investment system works extremely well.

DEVIN STEWART: Interesting. Regarding China's One Belt, One Road Initiative, you sound very skeptical. What risks do you see happening with that project?

GEORGE FRIEDMAN: Historically maritime trade has been much more cost-effective than land trade. So this flies in the face of a basic economic reality.

The second is it goes through Central Asia. Two points to remember: There's very little trade that the Japanese can do in Central Asia, especially with the oil markets as flush as they are; second, Central Asia is not stable. Any one insurgency in Uzbekistan or Kazakhstan can cut the road.

So if you're going to reach Europe—and that really is the goal of this road, is to have a kind of Silk Road going back and forth—this is about the most inefficient way to do it. I don't think the Chinese plan to do this. I think this is a way to try to shape expectations in Central Asia at minimal cost. But actually building this will take so long that it's not even relevant to current problems, and second, it leaves the Chinese wide open.

DEVIN STEWART: George Friedman, thank you so much for speaking with us today. Again, George is founder and chairman of Geopolitical Futures. We really appreciate your comments today, George. Thank you so much.

GEORGE FRIEDMAN: Thanks for having me.

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