

Will Obama's 'Sputnik moment' fly?

China's economic rise poses challenges, but comparisons to the U.S.-Soviet space race may be risky.

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Reporting from Washington and Beijing

In his State of the Union call to revitalize the economy, President Obama suggested that Americans today face a new "Sputnik moment" — the challenge of another foreign superpower bent on domination.

Just as a complacent America was jolted into action when the Soviet Union launched the first Earth-orbiting satellite in the 1950s, Obama warned, today the nation must rise to the challenge of an economically expansionist China.

It was a potentially powerful appeal, aimed at both pride and fear: China, not the long-dominant U.S., has the fastest computer and the fastest trains. China, with its relentless growth and financial muscle, could shoulder the United States aside in the world economy.

But Obama's invocation of Sputnik to support his agenda for economic change was also fraught with risk. If partisan strife leads to paralysis and neither his proposals nor alternatives are enacted — or if they fail to produce quick results and the public grows disillusioned — then the slow growth and high unemployment of today could stretch even further into the future.

And the challenge of an economically resurgent China is far different from the threat of the militarily aggressive Soviet Union at the height of the Cold War.

For one thing, the expansion of China's economic power is as much a reflection of long-festering problems in the United States as it is of Beijing's aggressiveness. Where Soviet Premier Nikita Khrushchev once declared, "We will bury you," Chinese President Hu Jintao on his recent visit spoke of partnership and cooperation.

Moreover, while Americans were united against Moscow, today many of the country's biggest corporations are deeply invested in China and likely to oppose any new policies that threaten to rock the boat.

Perhaps most important, Washington was able to respond to Sputnik by pouring billions of dollars into a new space program. But today, the nation is deeply in debt — its biggest foreign creditor none other than China. And many Americans are demanding less, not more, federal spending.

In the year Sputnik was launched, 1957, the federal government recorded a budget surplus of \$2.6 billion. This year, Obama is facing a federal deficit of nearly \$1.5 trillion. The math won't work very well in a divided Congress either, though Obama in his address last week called for unity "to win the future."

"It really poses an interesting challenge for both parties," said Robert Shapiro, an economic advisor to President Clinton. "Can conservatives distinguish genuine public investment from others that are a threat to American life? For Democrats, are they willing to reduce spending in other areas to increase funding" for critical projects to improve American competitiveness?"

With the recession seemingly behind him, Obama framed the challenge as a long-term fight for jobs in a rapidly changing global economy. And in singling out China on several occasions, the president cast a light on America's problems as revealed by China, as in a mirror. He spoke of China's focus on education, infrastructure and research in emerging fields such as solar power — all areas where the U.S. has slipped in global standing.

As Yale economist Stephen Roach sees it, the challenge from China is hardly the in-your-face military threat that the Soviet Union posed. "China's not beating us from a technological view," said the former chairman of Morgan Stanley Asia. Rather, the call is more "one of waking up, smelling the coffee and facing up to the mistakes we've made ... in relying on excessive consumption, excessive debt and low savings."

In China, many see it as odd that Obama would link China and Sputnik. No matter how much the U.S. may tout China's advancements, many Chinese don't buy the notion that their country will soon supplant American prestige.

"Westerners reflect in a time of crisis. They learn a lot from that," said Hu Xingdou, an economist at the Beijing Institute of Technology. "And they sometimes exaggerate other people's success."

Moreover, he added, the very thing that Obama summoned Americans to do — revive the innovation spirit — is what's missing in the Chinese economy.

"Our system lacks creativity," Hu said. "The U.S. is a private sector. It will stimulate innovation. We may be temporarily ahead of America in the areas Obama mentioned, but to truly surpass the U.S., we have to reform our system."

Whatever the Chinese reaction to Obama's economic call to arms, his message likely will tap into the increasing economic insecurities that a rapidly rising China has stirred in many Americans.

Although China's gross domestic product is only about a third that of the U.S., almost half of Americans say China is the world's leading economic power, while just 31% named the U.S., according to a Pew Research poll in January. Before the financial crisis and recession in late 2007, American perceptions of the U.S. and China positions were reversed.

Obama's China references "would have been very motivational," said Mark Mellman, a Democratic pollster whose research found similar results. "There's a real concern and fear that American jobs are going to China and that China is beating the U.S. in a number of categories."

One of those categories that Obama highlighted is research in solar power, but the same could be said more broadly about American support for renewable energy and research and development in general.

Unlike the Soviet Union and Japan, which in the '80s was the bogeyman for the U.S. economy,

China's huge and more open markets represent a double-edged sword as American companies aggressively expand in the world's most populous and second-largest economy.

"Because it has so much potential, the technology will go to where the markets are," said Tom Gage, chief executive of AC Propulsion Inc., a San Dimas maker of high-tech batteries and drive systems for electric vehicles.

He should know. Gage's firm is building a second, much bigger plant in China, attracted by real estate benefits, tax breaks and the promise of product purchases by opportunistic officials eager for American technology.

"The directive is clearly understood at the provincial and the local levels that they need to promote the EV industry," Gage said, referring to electric vehicles.

Gage, who isn't planning research and development in China, said he was encouraged by Obama's speech but hoped it would be followed up with concrete policy steps.

China's quest to move up the value chain and become more innovative has spurred huge increases in funding for research and product development. Such spending by China, as a percentage of its economy, has surged 170% from 1995 to 2008. Although the U.S. continues to plow more money into research than any other country, its spending as a share of the economy peaked at about 3% in the early 1960s.

"For 50 years, the rest of the world has been catching up and catching up," said Gregory Tasse, senior economist at the National Institute of Standards and Technology, a federal agency promoting technology and industry. Public funding for research and development, in particular, has lagged.

"I'm hoping the president's speech will be looked at as a turning point that we got our act together, but we'll see," he said.

Nobel economics prize laureate Edmund Phelps of Columbia University worries much less about government expenditures for research than what's going on at companies and in people's garages.

"One of the things that happened in this terrible downturn is that companies got rid of all their spare people — the people who were having dreams about the future and future projects," he said. "Firms decided to shave off the fun part of the workforce."

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