

## **Emerging Markets as Partners, Not Rivals**

By N. GREGORY MANKIWI

IN his State of the Union address last month, President Obama set the stage for a coming policy debate and his re-election bid with a catch phrase. Six times, he called on Americans to “win the future.” And he used the variant “winning the future” three other times. But is this really a good way to frame the economic challenges we face?

No doubt, the phrase appealed to White House political advisers and speechwriters. It is always better for presidents to focus on our future potential than the immutable past. And who doesn't want to win? Americans love rooting for their favorite teams, and no contest seems more vital than that for international economic dominance.

Yet this catch phrase is also problematic. For one thing, “Winning the Future” was the title of a 2005 book by Newt Gingrich. It is almost as if Mr. Gingrich were to run for president in 2012 under the banner “Audacious Hope.” And then there is that pesky abbreviated form of the phrase — WTF — that does not exactly inspire confidence.

More troublesome to me as an economist, though, is that calling on Americans to “win the future” misleads us about the nature of the policy choices ahead. Achieving economic prosperity is not like winning a game, and guiding an economy is not like managing a sports team.

To see why, let's start with a basic economic transaction. You have a driveway covered in snow and would be willing to pay \$40 to have it shoveled. The boy next door can do it in two hours, or he can spend that time playing on his Xbox, an activity he values at \$20. The solution is obvious: You offer him \$30 to shovel your drive, and he happily agrees.

The key here is that everyone gains from trade. By buying something for \$30 that you value at \$40, you get \$10 of what economists call

“consumer surplus.” Similarly, your young neighbor gets \$10 of “producer surplus,” because he earns \$30 of income by incurring only \$20 of cost. Unlike a sports contest, which by necessity has a winner and a loser, a voluntary economic transaction between consenting consumers and producers typically benefits both parties.

This example is not as special as it might seem. The gains from trade would be much the same if your neighbor were manufacturing a good — knitting you a scarf, for example — rather than performing a service. And it would be much the same if, instead of living next door, he was several thousand miles away, say, in Shanghai.

Listening to the president, you might think that competition from China and other rapidly growing nations was one of the larger threats facing the United States. But the essence of economic exchange belies that description. Other nations are best viewed not as our competitors but as our trading partners. Partners are to be welcomed, not feared. As a general matter, their prosperity does not come at our expense.

To be sure, there are exceptions to this rule. When China uses our intellectual property such as software without paying for it, we should view that as a form of theft. And when other nations’ economic growth has side effects on the global environment, as it does when they emit the greenhouse gases that contribute to climate change, the United States has good reason for concern. But these limited exceptions should not blind us into taking a more generally adversarial approach to international economic relations.

During the address, Mr. Obama lamented the fact that many foreign students attended colleges and universities in the United States and then returned to their countries of origin. “As soon as they obtain advanced degrees, we send them back home to compete against us,” he said. “It makes no sense.”

The president is right that we should encourage a greater number of highly educated foreigners to migrate here. Because skilled workers pay more in taxes than they receive in government benefits, increasing their supply would reduce the fiscal burden on the rest of us. But if these foreign

students decide to return home, as many do, we shouldn't worry that they are competing against us.

Instead, we should view higher education in the United States as one of our most successful export industries. The United States has 5 percent of the world's population but most of the best universities. Is it any wonder that students from many nations flock here to learn? And as they do so, they create opportunities for Americans — from the professors who teach the classes to the grounds crews who maintain the campuses.

When the foreign students head home, they take the human capital acquired here to become productive members of their own communities. They spread up-to-date knowledge, so it can foster prosperity everywhere. Some of this knowledge is technological. Some of it concerns business, legal and medical practices. And some is even more fundamental, such as the values of democracy and individual liberty. Nothing could be better for the United States than these thousands of American-trained ambassadors who have seen at first hand the benefits of a free and open society.

As we confront the many hard policy choices ahead, let's prepare for the future. Let's invest for the future. Let's be willing to make hard sacrifices for a more prosperous future. But let's not presume that the future is a game requiring winners and losers.