

Center for Strategic and International Studies

TRANSCRIPT

Online Event

“Ray Dalio’s *Principles for Dealing with the Changing World Order: Why Nations Succeed and Fail*”

DATE

Tuesday, March 1, 2022 at 12:00 p.m. ET

CSIS EXPERTS

John J. Hamre

President and CEO, and Langone Chair in American Leadership, CSIS

Ray Dalio

*Author, *Principles for Dealing with the Changing World Order: Why Nations Succeed and Fail* and Trustee, CSIS*

Henry A. Kissinger

Counselor and Trustee, CSIS

Transcript By
Superior Transcriptions LLC
www.superiortranscriptions.com

John J. Hamre: Good afternoon, everyone. My name is John Hamre. I'm the president of CSIS in Washington, D.C., and delighted to have you.

This is going to be a remarkable opportunity for me, and I think for all of us, to listen to two really unique strategic thinkers. This is a first for CSIS. We've never before had the opportunity to put a strategic thinker who lives in the world of finance and a strategic thinker who lives in the world of geopolitics together to talk about some of the really great, you know, transcending issues of our day. We're doing this based on a book that Ray Dalio has just published. It's called *The Changing World Order – Principles for Dealing with the Changing World Order: Why Nations Succeed and Fail*.

This is going to be a fascinating conversation, and so let me just start. And because Ray is the author, I want to start with him. Ray, why did you write this book.

Ray Dalio: In order to understand what's happening now from my perspective to do my job well I needed to understand certain things that never happened in my lifetime. I learned a while ago that most of the surprises in my lifetime came from things that never happened in my lifetime but happened many times before. In this case, there were three big things that are happening simultaneously: the creation of a lot of debt and the printing of money to pay for that debt – so there's a financial component to that, spending a lot more money than you're earning, financing it with debt, and printing money.

The second is the amount of internal conflict arising from the largest wealth-gaps and the largest political gaps since 1900. And then third, the rising of a great power to challenge an existing great power to compete with in the form of China challenging the United States. You know, the Soviet Union was never a great economic power, and there are different kinds of power, and you have to have all those powers. And so I needed to go back and study that— the study of the rise and declines of a reserve currency.

And so I went bac to find the cycles. I went back 500 years to see the rise and declines of the empires and their currencies, particularly the Dutch, the British, the American, and so on. And I saw this big cycle. I also studied the dynasties in China since the Tang dynasty, starting a little after the year 600. And I saw this same pattern. I could sort of describe the pattern, if you like. But I was motivated to do that. And so it popped out loudly and clearly. So I did the study for my internal handling my responsibilities. But when I learned what I learned, I thought I should pass it along, and that became the book.

- Dr. Hamre: It's a fascinating book. Let me – Henry, you trained as a historian. You're the world's premier strategic thinker on geopolitics. What are – what are your impressions about this great question that Ray has put on the table?
- Henry A. Kissinger: Well, I've had the privilege of conversations with Ray over several years. And the conversations arose because our thinking was very parallel, based on different evidence. I have been mostly concerned with geopolitical issues, with the rise and decline of societies looked at from the political field and historical field, and the patterns are very comparable to the ones that Ray has – that Ray has studied. And so I – the rise and decline doesn't always coincide in terms of years precisely, but if you look at it as a pattern there's a great correspondence. And Ray has discovered rises and declines in countries that I had not studied from the point of view of geopolitics, like the Dutch. So it is a subject for our time, because we are living through a situation where the rise is evident and the decline is not yet certain. But the pattern is beginning to appear.
- Dr. Hamre: Gosh, this is why it's going to be such an interesting conversation. To all of my colleagues who are watching, let me say that I'm going to explore three questions with these two – these two titans of thinking here. First is, what is America's future, given the trajectory that we're on? The second is going to be, let's dig into this question of the competition between China and the United States. And then finally I'd like to, if we have time, get to the question of how technology is or could change the trajectory of this.
- So, Ray, let me – let me start, if I could, again, with you. And that is, can America remain a global leader, given the path that we're on? How do you assess this now?
- Mr. Dalio: Well, history's shown that it's a function of one's strengths. And most fundamentally, are you earning more than you are spending? Do you have a good income statement and balance sheet? Because if you create a lot of debt you have to print money to monetize that debt, and it demeans the currency. And the currency's rate of strength comes from the value of its money.
- So what we're seeing right now, for example, is the printing and creation of a lot of debt, which is diminishing the value of the dollar and other reserve currencies in relationship to goods, services, and financial asset prices, that is causing an inflation in that. And there's a dynamic there which is important, I won't dwell on, but you have to be financially strong. History has shown that when the coffers are empty and there's a need to spend more money, that then there's always the creation – the printing of money, which devalues it, and that's a problem.
- The second issue is how we are with each other. There's a real tendency when you have financial problems and polarity to have increased populism

of the left and increased populism of the right. And a populist is a person who's going to fight for that side. By their nature they're not compromisers. And that greater and greater polarity, when conditions are problematic, can produce periods of disorder, periods of – types of civil war. For example, it's not inconceivable that neither side would give up losing – would accept losing in the next presidential election, in which case that would threaten the system. And so how people are with each other, whether they are working cohesively to common goals and productively, is very important.

And then those two factors, most importantly, affect the strength of the country. And of course, the strength of the country relative to other countries, such as China, is of paramount importance. But of course, China has a population which is more than four times the size of the United States. So if it has a per capita income that's half the United States, it will be twice as large as the United States economically. And those resources can go into all sorts of things, including military. And so how that confrontation takes place so that there's a win-win relationship rather than a war would be of paramount importance, I think.

Dr. Hamre: But, Ray, if I could just follow up, you know, individuals have to live within their means, but it seems like governments can keep going. I mean, I've personally decried deficits for my whole professional life, really 30 years. It's still – how long can this – how long can we keep this party going?

Mr. Dalio: Well, history has – by the way, governments and people are sort of in it together. So when a government runs a deficit, it's giving money to people. We, as a country, are doing that, and we're printing it. And what happens mechanistically, financially, is that one man's debts are another man's assets. You own a bond, for example. And as its return goes down relative to inflation, and inflation pressures rise, people start to think – investors start to think: How am I doing relative to inflation? We're now at that point. We're so used to thinking that the amount of our wealth is measured in the amount of money we have, not the amount of buying power that we have.

And so as the inflation rate starts to rise, that causes holders of bonds and other assets to start to sell those, and holders of cash to not want to hold those. And that essentially increases the amount the central bank has to print of money, because not only do they have to fund the deficit, but they have to make up that funding gap. And that dynamic is a very risky dynamic, very classic. So one doesn't know exactly when those things happen. In the case of the British Empire, of course their finances were very bad after the war and they had a series of devaluations. And really the end of the reserve currency status happened with the Suez Canal issue. And that, of course, ended that problem.

So there's a dynamic. Like, right now international investors are holding a lot of dollar-denominated bonds because it was the world's reserve currency. You could save in it. And there's a shift. There's a sense that there's over value. But the devaluation isn't just in relationship to other currencies, I want to emphasize, because there's – no country really wants its currency to rise so much. They tend to devalue together. And so we see it in the rising of all financial – you see it property prices rising, goods and service prices rising, service – everything rising in terms of inflation. And that contributes to the increased momentum of adapting to that inflation, which itself is more inflationary and reinforcing.

Dr. Hamre: Henry, let me just ask, I mean, the – you know, the U.S. built the current international order after World War II, but at that time our economy was half of the world's economy. So we were so strong we could set the terms. Now other countries are getting richer and we're living so far beyond our means. Isn't it inevitable that there's going to be some change in the international order that we created?

Dr. Kissinger: The position we had at the end of the Second World War was not sustainable, even with good financial policies, because it was going to be some other country, or a set of countries, was going to rise. But a position of leadership of some kind was theoretically sustainable. At the end of the Second World War, we were predominant. It was beyond leadership. I would describe leadership when your capacities militarily or economically and internally produce answers which other societies can orient themselves to their benefit. It's the second quality we have that has been declining in the United States, together with the financial situation.

And partly for the reasons that Ray gives. When confidence in leadership declines, and when a point is reached where the purpose of your country become a domestic issue, and when you have a significant segment of the population that is questioning the basic purposes, then you lose the capacity for sacrifice, and you lose the commitment to taking a broad view in which you're willing to sacrifice to some extent in the present for the sake of the future. And that is, to me, the challenge to American leadership today. The objective conditions are changing around the world and the internal conditions in America about the nature of leadership have become seriously under attack.

Dr. Hamre: Yes. This is – from two different directions you're both coming to the central conclusion, does America have conviction for its values and is it willing to sacrifice for those values at a time when it is so indisciplined as not to be willing to live within its means. I mean, this is a frightening kind of a prognosis and reality we're looking at.

Let me shift to one of the great themes running through Ray's book is the large cycles of rise and decline, decay in world-leading great powers, but in the context of a static and declining power versus a rising competitor. Let me start first with you, Henry, on this. You – again, you are a student of history. You know – you've watched the world in so many different dimensions. What are your thoughts about static powers dealing with rising powers?

Dr. Kissinger: It depends on the state of the cycle the two countries are in. If a rising power challenges a static power when the static power may be competitively declining but absolutely is still very strong and, above all, very purposeful, then the rising power can be quenched, at least temporarily. And a good example of that is World War I.

The German position relative to Britain's was comparatively improving, but the Germans did not understand what the actual balance of power was and that Britain was determined to maintain, for one thing, its supremacy of the – of the seas. There was one point where the British defense minister visited Berlin and offered some kind of neutrality in a European war if the Germans reduced their dreadnought production, which they refused even to consider. And then in the World War that grew out of this Berlin, the German navy never left port, except once. So that showed a bad judgement on the nature of relative power.

So it is not inevitable that the rising power prevails. And it's not impossible for stronger powers to maintain themselves, provided they keep their national purpose and their national unity, at least to the – with respect to the importance of their leadership. If they lose that, then the decline will get accelerated.

But one had to compare relative decline and absolute decline. And so there can be periods of relative decline when one is still very strong, which I think is the case of America today. But the direction is one which we should think about.

Dr. Hamre: Ray, can I – can I turn to you? I know that you know China very well. I suspect you've visited China several hundred times. I think you even had one of your sons go to school in China, if I recall. And so you have more – probably more familiarity and intimacy with Chinese leaders than anybody except Henry Kissinger. But, Ray, your thoughts here about this rising China. And what looks like what's emerging is a bit more pugnacious China.

Mr. Dalio: I think that in order to understand China, you know, you have to understand its rises and declines of its dynasties and the lessons they learned. Chinese policymakers or Chinese in general, their religion is history. And they learn the lessons of history, and they're very practical people. And the idea of dialectic – in other words, when things are at odds, materialism, the

mechanical of it, is trying to find the right balance. And I think that people who have less contact might not understand that process.

For example, how can the Communist Party embrace the second-largest capital markets in the world and innovativeness, and the creating of billionaires, and the like? I think they understand the cycle. So when there are – there's a lot to talk about, about China. But when you're talking about matters of common prosperity and other policies, which is really much more of a top-down Confucian, hierarchical type of approach whereas the Americans had more of a bottom-up democratic type of approach. When you're watching those two things work at odds, it's very important to understand where the motivations are coming from.

I think that there's a tendency to go back and think the word "Communist Party," and think of the old era of, you know, Mao, and not to understand how the improvement of the living standards was – came about by really the movement from the first phase of the revolution essentially, which was the Mao phase, to going to Deng Xiaoping. So when the question is asked – essentially, Deng Xiaoping says the question about the use of capitalism. And he says, it doesn't matter whether it's a white cat or a black cat, as long as it catches mice. Meaning that if it works, it works. And also, he said, it's glorious to be rich. And he also explained, and this is very much the case, that you have to get rich before you distribute the wealth. And so the concept of common prosperity or even the control is important.

Also of paramount importance is the issue of sovereignty. Right from the beginning, the notion of what goes on in our borders is our issue. And then, of course, there's the issue that Henry could speak to about, you know, there's one China, Taiwan is part of China, and what that represents. For example, they're very much conscious of the hundred years of humiliation, as they call it, when around 1840 there were the foreign powers that came in, and the opium wars, and Taiwan – I think it was about 1895 that Japan, as one of the foreign powers, takes Taiwan. Those things are existential issues.

And I think it's very important to be able to see things from not only China's perspective but also for them to see it from America's perspective, and to realize that if there is a war, a military war, it will be the worst war we've ever had, because the technologies have advanced, and to be able to deal with that well. So I guess there's a lot to talk about in terms of China. I would emphasize the importance of avoiding the wars. There are five types of wars, right? And they get progressively more difficult. There's a trade war, a technology war, a geopolitical influence war, a capital war, and a military war. And they all can go together.

So, anyway, I'll turn that over to Henry, because, you know, it's 50 years ago – and, again, congratulations Henry, that you began this relationship. And of course, nobody understands it better than you.

Dr. Hamre: I really do want to turn to Henry on this, but if I could follow up with you, Ray, just on this. Several times you mentioned the term “common prosperity.” For our listeners, that's not a – that has a very special meaning now because President Xi has used that term, “common prosperity” to represent kind of a new paradigm in China. Ray, you referred to when Deng Xiaoping set off a period of pragmatism, you know, in Chinese economic policy. China blossomed when the Communist Party took its controlling hands off of the private sector. And it just blossomed. But now common prosperity suggests more of a – of a Chinese Communist Party intervention in the private sector. How do you look at that?

Mr. Dalio: Well, it's very top-down. So I'll give a common property way of looking at it, using the example of gaming as an example. Much more top-down control. But in gaming, they would set the rules. The government sets the rules that the average – the person, the child, the adult, or whatever, up to a certain age, can't go on for more than X hours – like, two-and-a-half hours a week. And it must be these games, which are approved. In the United States, there would be no such controls that way, and so we have what we have in the way of gaming and what is on gaming. So I would say that common prosperity is viewed in that way. Shouldn't be viewed as much a black and white issue as one might be prejudiced to include it.

So, for example, big tech companies, they believe, should be operating in a certain way. Who controls the data, who controls the information, and how do they behave? But simultaneously, they're doing some program, what they call Little Giants. And they're finding in each of the provinces and so the best innovators. And they're financing those to come up with all new technologies. And they've created a stock exchange in Beijing for helping to bring those entities public and to bring them up. So there are differences in the approaches that are being used. I think that there's – and it's certainly much more autocratic, much more controlled, and you obey the rules. It's a very strict society in terms of the obedience to those rules. And that's what's going on. But it should not be misconstrued as being something like a movement beyond that to a classic communist.

And also, I think we have to keep in mind that this is a political year. And politics in China, while a lot less open than politics here, politics goes on. So like our November, coming up in our November, they will have a November. And they'll change a lot of the representatives in government. And that enters into the nature of what's going on too.

Dr. Hamre: Ray, thank you. You were right to highlight the iconic role that Henry Kissinger played in really helping to open up this remarkable, you know, development of – first, our earlier relationship, which was constructive, and the flowering in China. Henry, you worked primarily with Mao, but obviously you knew Deng Xiaoping. And you've been very intimately connected with all of the leadership since then. Now we have Xi with a little bit more of a hard-edged approach. How do you look at the China that's emerging now as compared to the China that you spent so much time helping to, you know, bring us together with, you know, in the past?

Dr. Kissinger: I would initially with Mao, but I would say primarily with Deng and Jiang Zemin, as the intermediate successor. Mao was a – was a rigid – in economic matters – a rigid ideologue. He did not want any trade with the United States. But he also was a strategist. So he looked at it from – he did not want to create any dependence in his period of China on the United States in any sense. Deng was the leader who understood what Ray has mentioned, that China had to become rich before it could become influential, and that it could not do it with ideology alone. And so Deng, who had led the agricultural revolution in China which was extremely violent, he became permissive towards the development of Western-style capitalism in a limited way.

And so when people say now that Xi has changed the character of Deng, this is also related to the objective capacities of China. And as the Deng revolution succeeded and China developed greater capacities internationally, a certain hardening of the edge was bound to become apparent, especially since the century of humiliation is living experience for the Chinese. It's not some abstract discussion. So the successor of Deng, to the extent that he succeeded economically, was bound to take a more comprehensive view of the Chinese national interest, always keeping in mind that the Chinese approach, as Ray mentioned.

Our approach is pragmatic. We are looking to solve individual problems. The Chinese approach to policy it's historically they are concerned with the evolution of a process, and they look at where they will be five to 10 years from now rather than the immediate solution. So some hardening was – what we consider hardening – was inevitable. Whether that would turn into a contest between China and the United States, that is the key issue. And whether these styles of – various levels of conflict which Ray mentioned are – will all work out is the profound question of our time.

Because there's one fundamental difference between historic foreign policy and contemporary foreign policy, which is the nature of technology. In all previous conflicts, the damage that war caused was, to some extent, calculable. And a margin of victory could be imagined, often wrongly. But in contemporary wars, fought with modern weapons, it is unpredictable whether there will be any margin of victory. And so the two possibilities

whether we, both sides, actively prepare for war, or whether both sides, realizing the dangers, establish a communication with each other in which they consciously compete in many fields, and exclude major technological conflicts.

It has never happened in history before. And I wouldn't say that we are prepared for it. And I don't know whether the Chinese are willing to entertain this. They say that this is what they have in mind, but this requires on the American side a degree of reflection and elaboration of conflicts which does not now exist, and a capacity to execute it over an extended period of time, and on both sides a level of dialogue which goes beyond maneuvering the other side into a disadvantageous position. This is the novel feature of contemporary international positions, and of historic evolution. That most other societies declined without a consciousness of their decline until it was too late. In our case, in the contemporary world, an all-out conflict would bring about the mutual decline. And one cannot be sure what the outcome of that will be in terms of global order.

Dr. Hamre:

Henry, you just – you introduced really the third question I wanted to explore with you. And I really would love to now dig a little bit deeper in this question of how technology is going to affect this – both this competition and our respective capacities. You know, I was a – I was a poor student of economics, but I do recall that when the question of technological innovation comes up, is that it's – it brings a discontinuous sort of change both in supply and demand. So there's both opportunity and risk in technology advancement. And so I'd like to explore this with both of you.

If I could start with you, Ray. And it's a question about our – you mentioned the technological competition. And you framed it as being one of five modalities of warfare. But it also doesn't have to be destructive, does it? How do you think about this technology competition that's emerging between us?

Mr. Dalio:

Well, throughout history one sees that all these cycles that we're talking about are almost minor by comparison to the evolution that comes from inventing better ways and better technologies to do things. Reading history, it's almost as though the only things that change are the clothes that people wear and the technologies they use. And so I think because of those technologies, the world has become a much, much closer place. Three hundred years, it would take a day to go 25 miles. Now we are all connected in a fraction of a second. So the first world wars happened during the 20th century. And so now we are extremely, extremely connected.

And those technologies, as you point out, have the capacity to solve enormous problems and raise living standards greater. It's why life expectancies and per-capita GDP is the highest it's ever been. Wonderful. But they are also threatening technologies. So if we're thinking about

connectivity and also, let's say, cyber, by way of example. Cyber, the offenses are much greater than defenses. And I'm not just any longer talking about nation-states. But the holes that exist within our technologies, our cyber technologies, can take down – hackers are getting the capacity to be able to take down things, places, and so on. And so it's a very big risk.

And so the technology wars that are going to come, should they have, are, as you point out, more developed than ever before. They're probably cyber, space, drone warfare, and so on will be the – you know, those. There are, you know, some benefits in that there's a precision that can be executed by using some of those. But if this – there's an acceleration of a tit for tat, yes, it's the – as Henry's saying and I think you're implying – it can destroy humanity. The capacity exists. And so, as Henry is saying, the awareness of that means that that, I would think, would be the primary goal to avoid that at all costs, and then make those other types of wars, just competition and may the best systems win out.

Dr. Hamre: I'd like to – I'd like to turn to that dimension of – the dangerous dimension in a minute. But if I could, Ray, still stay with you to ask your thoughts. About four or five years ago China published something called China 2025. I mean, this was kind of a blueprint for an industrial policy where they were going to capture global leadership in 15 major technologies. What are your thoughts about that? And is that a threat to us?

Mr. Dalio: I think we want to do the same, in a sense. You want to compete and be the best that you can. And the question is, is that competition by its nature turns into a war-like behavior? And then what are the rules of the games about taking each other's intellectual property? How does that work? How do we know that it's being used for safety? I was surprised that people were so surprised about that. Yes, so we should assume that there – that both countries are going to want to develop the best technologies and take the leadership, because also technology is both economic and military. Whoever wins the technology wars, wins the economic and the military wars. So there's a heck of a lot of incentive to do that right. And both will develop, and both can be threatening, or both can be uplifting to each other, depending how it's handled.

Dr. Hamre: Yeah, I completely agree. I wish America had an America 2025 blueprint. I mean, it would be good to guide – if we had something to guide us too. But let me – this is – you've been introducing this question of the risk. Henry, you just wrote a book with Eric Schmidt about artificial intelligence, the revolution that's coming with artificial intelligence. And the – you know, it has – it has huge economic potential, but it also has considerable risk. Henry, your thoughts about how artificial intelligence should be something that we should focus on, as both promise and danger?

Dr. Kissinger: We need to focus on the development of advanced technology for the reasons that Ray gave, in determining the capacity we would have to compete. But there's an additional element now in the evolution of technology that did not exist previously the same – to the same extent. Which is the change in the perception of the nature of reality that occurs when so many of the events occurring around you are produced by processes which you use – by which you don't necessarily understand their long-term implications.

So that the judgement of the improvement in economic capacity has to be matched with an understanding of the – what is the perception of the leaders of the evolution of the – of the process, because that will determine the risks they are willing to run and, above all, the long-term planning they would undertake because finally these matters come down to questions of strategy, which is the utilization of the combination of these capabilities in some sort of national purpose. And there, the gap between what the political leaders understand and what the technologies produce is unprecedentedly huge. It has never existed to this extent, or to any considerable extent, in previous history.

So we have a lot of internal rethinking to do of how we can best prepare our society. And the Chinese are more, by the nature of their Confucianism, are thinking about these matters. And that gives them a kind of conceptual advantage. We are better in short-term technological solutions to problems. But in this long-term problem, we need a lot of restructuring of our educational priorities and of our leadership thinking.

Dr. Hamre: Yes. Ray, let me ask you, on artificial intelligence, your perspective of this from a financial strategists' point of view. How big a deal is artificial intelligence going to be over the next, say, 10 years?

Mr. Dalio: Well, it's going to be huge. I want to – I want to distinguish something about artificial intelligence. Artificial intelligence, which really means pretty much machine learning, is tremendously advantageous in raising productivity and doing things that are more mundane and, on the other hand, can be very dangerous. If something is done over and over again repeatedly, and the computer can watch the patterns of that – and that can be anything from performing the surgery, done the same way – so that the future will be like the past, it can be relied on and use pervasively in excellent ways.

However, if the future is different from the past, and it relies on those past relationships, it can be very dangerous. Because what one gets out of it, as Henry mentioned, is equations without the understanding of why those conclusions exist. So in a race to be effective, there's a real tendency to want to use artificial intelligence on most things, but there may not be the same

level of understanding. And so if the future is different from the past in important ways, it can be very threatening.

Dr. Hamre: OK. Let me – colleagues who are listening, we are running out of time. And I was afraid of this. There's so much to explore. But if I could ask you both just one very general question now, which is: I mean, it looks like both China and we, the United States, are looking at each other now with the darkest interpretation of each other's motives. How can we change this? This – if we persist on that path, this could turn out badly. Ray, first, your thoughts, and then Henry.

Mr. Dalio: I think that in both countries there's a recognition that the – whoever you're speaking with might change and the policies might change. And so it's almost like the prisoner's dilemma. You know, if you don't know whether the other side is going to kill you or should you cooperate, should you kill the other side or should you cooperate? And the answer is kill the other side for the defensiveness. And there's a bit of that going on. And so I think that what has to be done is the placing of those risks as the paramount importance, and the establishment of clear red lines, and the understanding of how to negotiate those red lines so that they build around the fact that there could be all sorts of competitions and so on. That you do not want to cross certain red lines. And so it becomes of paramount importance.

I don't feel that just finding ways to cooperate, like there's climate change and so on, that can change the mood. And it certainly can. But I think you have to deal with the existential risks that come from – as perceived by each country. And then also the greatest existential risk of those two fighting. And you've got to make that a number-one objective, I would presume.

Dr. Hamre: Yeah. Henry, your thoughts? This sounds very much what you would say too, but your thoughts on this.

Dr. Kissinger: My thought is very parallel to this. The two sides – the dilemma both sides have is that if they engage in traditional arms control exchanges, it can be used as a sort of source of intelligence rather than as an element of restraint. That they learn about each other's capacity, but do not rule out the need for exchange for the definition of limits. So the first step would have to be that the two sides agree that this is a principal objective, to define the red lines, which would define limits, and to define the message of competition beyond which one does not go in the technological field. But this requires a reorientation of strategic thinking on our side, and probably on the Chinese side. But no such dialogue exists today.

And not even the beginnings of it. And I obsessively keep saying we have this paradox. We have to be strong. We cannot be – we cannot fall behind. But we cannot in that process forget that if the other sides thinks the same way, if

red lines do not exist, a catastrophic outcome becomes very possible. And that should be the first task to avoid.

Dr. Hamre: OK, I – we are – colleagues, we’re now down to the end. I want to provide an opportunity for some final comments. We’ve – in this conversation, we’ve been exploring the – you know, the nature of America’s current trajectory, it’s internal problems, and how it could affect our leadership capacities. We’ve discussed the rivalry between us and China, and we’ve talked about technology. And so with these two remarkable strategic thinkers, let me just ask Henry, for you – I’ll go with you first, because I’m going to give Ray the last word. It’s his book. Henry, your thought, just stepping back and reflecting on the sweep of where we are now as a nation. You know, what would you be saying at this time to, you know, all of us that are carefully listening. How do we – you know, how do we make success out of the path we’re on and the future we want to have?

Dr. Kissinger: Our first task is to rediscover some common purposes and to understand what the long-range objectives of this country should be in some unified way. And then we can apply that confidence we might develop through this process to the concrete issues that have been mentioned in this discussion. I am deeply worried about the nature of our domestic debate at the moment. And that then makes everything we do a sort of a technical project in relation to a specific issue, but the specific issues – if Ray and I are right – are a reflection of a process that is going on. And we have to learn to think about these processes and how to manage them. I would say that’s our preeminent task. Then I’m pretty confident we’ll solve the technological problems, because we’re good at that if we know the purpose. But we cannot do it simply solving daily problems. We have to learn to think in historical terms.

Dr. Hamre: Ray, you’re the author of this remarkable book. I’m going to give you the last word. I’m going to say final concluding thank-yous, but I give you the last word here.

Mr. Dalio: Once again, Henry and I see this alike. The capacity that we have – we’ve never had in the world the highest per capita income that we have, the most wealth, the most technology. It’s really that we have the capacity, if we deal with these things correctly, to avoid that and on go on and have a better living standard than ever. It’s all within us. I like Henry’s word about worry. He and I have talked about this. One of the reasons we wanted to do this is because I believe, and he believes, that if we worry we don’t have to worry. And if you don’t worry, you need to worry.

Because if you worry about these things, then you’ll pay attention to eliminate or reduce the risks of the things you’re worrying about. But if we don’t worry about these things, then we are not going to do that. So the worrying about the war, the worrying about these types of conflicts I think

can be a motivation to move on and to dig deep within ourselves to be the best people we can, in terms of dealing together with what is our common interest.

Dr. Hamre: Ray, thank you. I just – I love my job at CSIS because I feel I'm like a bat boy at an all-star's game. I mean, it's so thrilling for me to be around these all-star thinkers, Henry Kissinger, Ray Dalio. Marvelous conversation with you today. Thank you. The book is available. It's *The Changing World Order: Why Nations Succeed and Fail*. Please go out and buy it. Ray doesn't need the royalties, by the way, but it's worth reading. And I really encourage you to pick it up. And it's a fascinating look through history with constant lessons for our future. So, Ray, thank you. Henry, thank you. It's been a marvelous opportunity for me to be with you both.

Mr. Dalio: Thank you, John, and thank you, Henry.

Dr. Kissinger: Thank you.