www.ndn.org

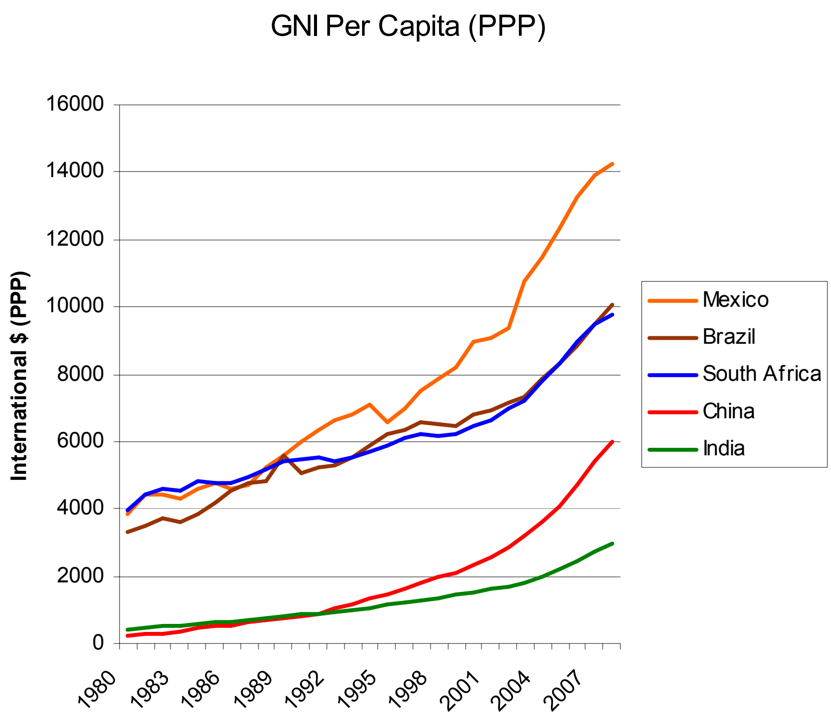
The Second in a Series of White Papers on the American Economy in a New Era of Globalization

The Rise of the Rest: How New Economic Powers are Reshaping the Globe

By Jake Berliner
April 23, 2010

The structure of the global economy has changed dramatically over the past two decades. Since the end of the Cold War, global commerce has connected the farthest reaches of the globe, resulting in a world economy marked by the ascendance of people and nations outside of the advanced industrialized world, a phenomenon Fareed Zakaria has termed "The Rise of the Rest." This rise means that American people and businesses are competing with not just more, but more capable, connected, and innovative people and businesses than ever before. There can be no doubt that this heightened competition, fueled by the inextricable march of globalization, will shape the early part of the 21st century and help define the changing world.

New People Join the Global Economy



Two decades of globalization, facilitated by economic liberalization, have resulted in the rise not only of nations but of people. Global poverty levels have dropped and living standards have increased dramatically. China alone has pulled hundreds of millions out of poverty – in 1990, roughly 60 percent of Chinese lived on under $1.25 per day; by 2005 that number had fallen to 16 percent. Between 1990 and 2008, Gross National Income (GNI) per capita, adjusted for Purchasing Power Parity, increased more than seven-fold in China. Other emerging nations have seen

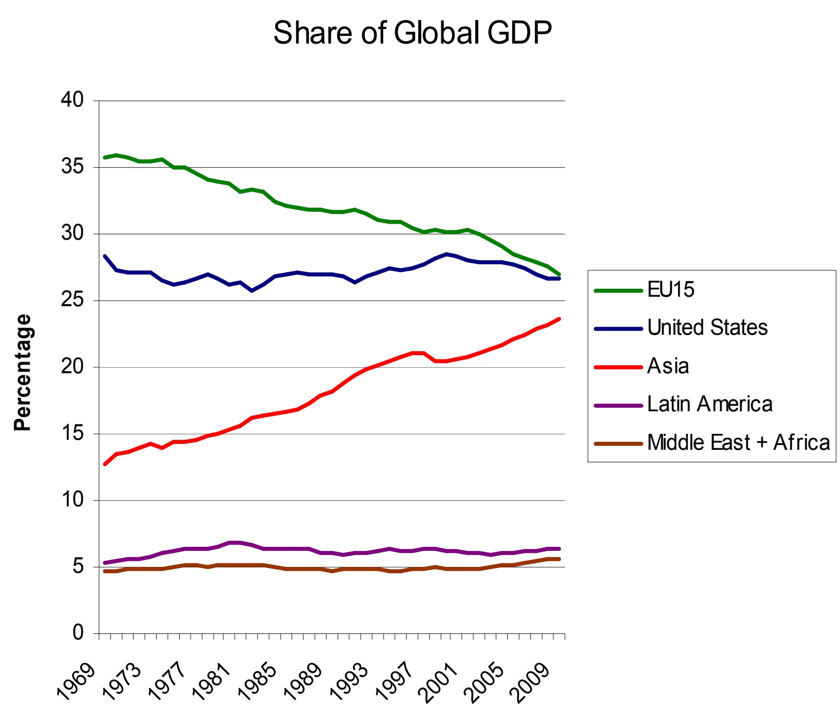
729 15th Street NW • 2nd Floor • Washington, DC 20005 • Tel: 202.544.9200 • Fax: 202.547.2929

impressive increases – GNI per capita approximately doubled in South Africa, Brazil, and Mexico, and more than tripled in India.

New Economies Compete Globally

Businesses in emerging economies also now play a much larger role in the global economy. Developing and emerging economies exported 42 percent of global merchandise in 2007, compared to just 28 percent in 1990. These same economies also compete with developed nations for global capital, nearly doubling their inward flow of global Foreign Direct Investment from 18 percent in 1990 to 33 percent in 2006.

The rise of new economic players has resulted in an intensely more competitive global economy, a hallmark of which has been the emergence of multinational corporations based not just in the United States and other advanced industrialized nations, but emerging markets as well. Thirty-seven of the Fortune Global 500 are Chinese, compared with just eight in 2000. The world's three largest banks (by market capitalization) – the Industrial and Commercial Bank of China, China Construction Bank, and HSBC – are headquartered in China. (HSBC is British, but moved its headquarters to Hong Kong in 2009.) Most stunningly, according to *The New York Times*, 2009 – admittedly an unusual year – saw $34.8 billion in initial public offerings in China compared to $13.7 billion in the United States (as of November 13, 2009).



Other regions and nations have seen similar developments – state owned oil and gas companies in Brazil, Russia, India, and China (the so-called BRICs) are major and in some cases dominant players in the global energy scene. The Asian "Tigers" – Singapore, Taiwan, South Korea, and Hong Kong – have rapidly become major global players in the technology and financial sectors, providing competition to Japan and serving as role models for other emerging regions. South Korea's export growth over the past decade has been especially impressive; its 9.7% export growth over that period trails only China (at 20%) in growth for the world's top ten exporters. Additionally, trends such as the emergence of Mobile Banking and Islamic Finance have the potential to extend powerful economic tools to areas of the globe that have yet to begin their rise.

Rising Powers Emerge

While notable for its changing economic relationships, the Rise of the Rest has resulted in a fundamentally new global structure that includes new power dynamics. Europe, which in the post war era had been able to rely on economic heft to ensure diplomatic sway, has seen a relative decline as economic might has shifted away, in large part to Asia. Outside of Asia, new regional powers have emerged as well, with Brazil, South Africa, and Mexico, among others, playing significant regional roles.

These new power relationships are evident in formal organizations of global governance. The G-20 has replaced the G-8 as the primary global economic leadership body, and similar organizational changes have occurred at the International Monetary Fund (IMF). New security arrangements are likely not far behind. NATO's membership has already been broadened to include emerging countries formerly anathema to NATO's original mission, and rumblings persist about reform of the United Nations Security Council. In the most striking example of the weight of new powers in the diplomatic sphere, the pivotal negotiations during the recent Copenhagen climate conference involved only Brazil, South Africa, India, China (the so-called BASIC countries), and the United States, casting aside European nations, many of whom are the world's leading champions for climate accords.

The rise of new powers, particularly China, will not come without economic and political challenges on the international stage. China has created a number of questions about the ability of foreign multinational corporations to function in China following its recent breach of Google's corporate networks. Additionally, China's ongoing inability to fully satisfy its obligations to the rules-based global trading system has earned it the ire of both industrialized and developing countries, as its currency policies could quite literally beggar its developing neighbors. While China's growth into a major player in the global economy is clearly a central development of the 21st century, the sustainability of its mercantilist orientation is open to question. Its dominance is also far from assured, and doomsday scenarios of a "Chinese Century" seem unrealistic, as China still lags far behind both the United States and Europe in military, economic, technological, and diplomatic clout.

The Obama administration's recent diplomatic approach to Chinese currency practices is a prime example of leadership in the age of the Rise of the Rest. Instead of releasing a Treasury Department report labeling China a currency manipulator, the Obama administration used nuance and multilateral diplomacy to thaw the previously icy Sino-American relationship. By publicly declaring its intention to engage through the G-20, a body whose membership includes countries more affected by China's currency practices than the United States, the Obama administration demonstrated an effective use of modern international institutions representative of the new global economy.

The Domestic Impact

While often feared in the United States, globalization had a tremendously positive effect on the American economy in the 1990s. Global competition offered consumers broad choice, kept prices and inflation low, and helped facilitate a decade of unparalleled, exciting innovation. This innovation, particularly in the area of communications along with commercial connectivity contributed to a decade of broad-based prosperity and low unemployment unlike any other.

In the following decade, however, these same forces, combined with policy neglect and mistakes, created a lost decade for everyday Americans. The same forces of global competition that helped avoid inflation in the 1990's left businesses unable to raise their prices and therefore give workers raises or create jobs. And the neglectful economic policy of President Bush failed to acknowledge or tackle the changing global economy. Although President Bush is widely viewed as "pro-trade," his legacy of smaller bilateral and regional trade agreements, enacted mainly for geopolitical and not economic reasons, failed to appropriately position America for this new economic age, allowing other countries to create economic alliances that excluded the United States and offering an inadequate political and policy response to the Rise of the Rest.

These vast economic changes deserve a responsive domestic agenda commensurate with the size of the challenge. NDN has long advocated a three part agenda – modernizing health care and energy policies, fostering and accelerating innovation, and investing in 21st century skills for our workers and children – that is designed to address the structural changes in the American and global economies caused by globalization. Ultimately, such an agenda must be centered on the idea that, in order to excel in a more competitive global economy, America must do more and better equip its people for success.

What the Rest Can Do For America

Instead of seeing the Rise of the Rest as the cause of American decline, the changing global economy can be one that raises all ships. American policy and businesses have played direct, active, and positive roles in promoting the rise of emerging economies, improving lives and helping fulfill the aspirations of billions around globe, a record we should be proud of. Instead of fearing the changing global economy, Americans can embrace the opportunities it presents to further our interests.

The rise of new economic powers offers myriad new economic opportunities for America, most notably the ultimate ability to shift the global economic paradigm from one driven by American consumers – only five percent of the world's population – to one "rebalanced" by consumption in the emerging regions of the world. Already, American companies are highly involved in emerging markets, activity shown to drive job-creation here at home. And the Obama Administration has embraced exports as a principal driver of economic activity in the coming years, with a goal of doubling exports within the next five years. This is an important beginning to a broad strategy; trade related jobs pay 13 to 18 percent more, on average, than non-trade related jobs. More importantly, though, it is increasingly clear that ensuring future economic prosperity will rest on robust engagement with the global economy.

The increased, open commercial connectivity offered by this new economic paradigm has the potential to lead to significant diplomatic and foreign policy gains as well. Many of the challenges of the early 21st century, from climate change to terrorism to global poverty, inherently require the type of collective action that is more easily facilitated by interconnected nations. The power of commerce to bring modernity to some of the darkest corners of the world will help shed light on extremists, and investing rising nations in the global rules of the road will help ensure prosperity and peace. That it is taken for granted that trade disputes with China are being litigated in the WTO can only be viewed as a tremendous success for rules-based global governance.

A Century for America and the Rest

The American economy did not create broad-based, domestic prosperity in the last decade, so it is understandable that everyday Americans do not fully embrace the challenge of globalization. (Although NDN polling conducted in 2007 illustrates an American public far more aware of globalization and its opportunities than their elected leaders usually acknowledge.) It is one of the great tasks of political leaders today to define both the challenges and opportunities of this new global economy and position the American economy for success. Instead of fearing the changing global economy, Americans can embrace it and understand that these changes serve as reasons for both investment in the success of the American people and openness to new global partners.

Going forward, decline cannot enter the American lexicon, and the emergence of new economic powers need not necessitate it. And Americans should take comfort and confidence from the fact that all previous prognostications of American decline have been incorrect. Articulating a vision for a new global economy in which the economic capacities of other nations are heightened and American leadership is central in promoting an open, connected globe is undoubtedly one of the defining challenges of our day. It is a challenge that befits America, speaks to the aspirations of those both at home and abroad, and presents an exciting opportunity to create a better, peaceful, and more prosperous world.

Jake Berliner is the Deputy Policy Director of NDN's Globalization Initiative.