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First Roundtable - *Globalisation: Facing the Asian Challenge*

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Let me say at the outset that the emergence of China and India as new major global players and the rise of Asia in general is the third great shift in the international balance of power in the last 500 years.

The first was the rise of Europe, which became the most dynamic, expansionist and rich part of the world between the 17<sup>th</sup> and the 19<sup>th</sup> centuries. The second was the rise of the United States in the second half of the 19<sup>th</sup> century to the present, and now we are witnesses to the third great shift, the rise of Asia.

And even though I agree that on balance, this is a positive thing - it's bringing more wealth to all of us - it still has a number of challenges. And although it's natural to focus on China, the most dramatic manifestation of the shift, the process really began with Japan's recovery from WWII and the successful development strategies through integration with the world economy, markets and western created institutions of South Korea, Taiwan, Hong Kong and Singapore. It spread to other South East Asian countries such as Thailand, Malaysia, Indonesia, then came China at a historically great speed and on a much more gigantic scale, and of course India is not far behind. And I would agree that in some respects because of China's democratic deficit if you will, India may actually have better long-term prospects.

The former US ambassador to China, Stapleton Roy, is right when he says that never in history has a country risen as rapidly as China. And its dramatic rise reminds us that globalisation isn't just a phenomenon with economic repercussions, but also potential political, security and social consequences. It will alter regional and global balances of power in a way none of us, including the Chinese, can know. And just as the chattering classes refer to the 1900s as the American century, the 21<sup>st</sup> century may be the beginning of an Asian driven era. High economic growth, broadening growth gap with the developed world and particularly Europe, expanding military capabilities and large populations will be at the root of this expected rapid rise in economic and political power of both China and India.

Very quickly, if you look at 2020, China's gross national product will exceed that of all individual western economic powers, except for the United States and other figures show that it could exceed that of the United

States by 2040 or 2050. India's gross national product in 2020 will have overtaken or will be on the threshold of overtaking the major European economies. These changes have profound domestic ramifications particularly for western middle classes. The integration of China, India and the former Soviet Union as well into the global market capitalist community has doubled the global labour force. Last year for the first time, what we perhaps inaccurately referred to as emerging economies in general, accounted for more than half of total world GDP - for the first time, as measured by purchasing power parity.

And we in the western world have seen our own wages, inflation, interest rates, growth, domestic policies, driven by this Asian and emerging market trend. That means we must all act according to the 'Red Queen Principle'. Drawing upon a concept in literature that arises from what the Red Queen told Alice in Wonderland in Lewis Carroll's *Through the Looking Glass*. It applies to an evolutionary system where rapid and continuing development is needed just in order to maintain fitness relative to others. Said the Red Queen to Alice: "In this place it takes all the running you can do to stay in the same place."

So the United States and Europe - the transatlantic community that doesn't expeditiously transform and adjust to meet globalisation's challenges - will see its ability to shape events quickly erode and it will see itself fall further and further behind.

The rise of Asia will inevitably alter the relative positions of the United States and Europe in the world. But it could also alter the relationship between the United States and Europe, particularly if Europe continues to lag behind the United States both in terms of productivity and in terms of growth rates - not to mention the comparison to Asia.

As the centre of gravity moves to Asia, we could either have a profound impact on how the rise of Asia unfolds or we could underestimate the importance of trying to achieve consensual policies toward, particularly China's rise. Had we achieved consensual policies perhaps the currency manipulation of the Chinese would be somewhat different, perhaps the intellectual property violations would be somewhat different, perhaps China's relationship and support for problematic or if you will, rogue states would be somewhat different.

China and the rise of Asia will either strengthen Atlantic commonalities or accentuate our differences. Indeed at no time since the formation of the Western alliance system in 1949 have the shape and nature of international alignments been in such a state of flux. It's fraught with opportunity and danger, not just because of the character of globalisation, but also because of the sheer speed of change and the lack of preparation of all the players and their populations. By many measures, Europe looks well positioned to increase its weight on the international scene. It could be a model for the world, increased market size, roughly the size of the US, single currency, highly skilled workforce, stable democratic governments, strong social systems, unified trade block. It could be a model of global and regional governments for rising Asian powers. Yet ageing populations, shrinking workforces, unreformed social welfare, education and tax systems, unintegrated immigrant populations, chiefly from Muslim countries, threaten a period of protracted economic stasis and potential political instability and new security threats that in a Red Queen Principle world could get worse faster than one anticipates. We at the Atlantic Council see globalisation, - and let's define that as growing interconnectedness reflected in the expanded flows of information, technology, capital, goods, services and people throughout the world -as an overarching mega-trend. A force so ubiquitous that it will substantially shape all the other major trends of the world in 2020.

The future is far from fixed, some aspects are irreversible; the information technology revolution, but one shouldn't forget that the era of globalisation, the late 19<sup>th</sup> and the early 20<sup>th</sup> centuries was reversed by catastrophic war and global depression. We are unlikely to have a great power conflict. China, India, all the rising powers are rising because they're participating in a world community that they won't want to upset, so setbacks won't happen in the same way but they could still happen.

Rand has cited eight major risks for China's continued rapid growth:

- - First: financial system and State owned-company fragility;
- - Second: the economic effects of corruption;
- - Third: water resources and pollution;
- - Fourth: shrinkage of foreign direct investment that could happen should there be domestic or other instability;
- - Fifth: epidemic diseases;
- - Sixth: social unrest rising from income gaps and lack of democratic means of addressing these. This is a bold experiment in China - and even though it's gone extremely well for a long period of time, one can't assume that it will naturally do that forever;
- - Energy consumption and accompanying price increases are a danger and of course;
- - The Taiwan dispute and other potential conflicts.

Barring such a turn of events, the world economy is projected to be 80% larger in 2020 than it was 20 years ago and the average per capita income will be roughly 50% higher. If globalisation is bad, I want more of it. There will be cyclical ups and downs and the odd financial or other crisis as we go further along, but the growth trajectory has a powerful drive behind it.

The expected next revolution in hi-tech involving the convergence of nano-, bio?, information and materials technology could further bolster China and India's prospects.

Let me close, then, on Europe. Europe's resistance to structural reform will carry an ever larger cost as the 'Red Queen Principle', the idea that you have to run faster to stay in place, punishes countries and regions that don't move fast enough. Some say that Europe needs to become not just an economic power, but also a political power, in other words, not a political dwarf. I think the danger Europe is facing right now is that if structural reforms aren't undertaken a century from now, or even 50 years from now, Europe will be on the way to becoming not just a political dwarf, but also a declining economic power. Politicians must tell their publics finally that the alternative to structural reform is that Europe and their own countries will be marginalized. Some Member States may go into decline, and strains that may emerge may make it more difficult for the euro zone and the European Union more generally to hold together at all.