



# Rising Powers and Global Governance

Changes and Challenges for  
the World's Nations

Shahid Javed Burki



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# Global Change and Its Consequences

## INTRODUCTION

This book is about global change and its consequences. Both “change” and “consequences” are hard to define with any kind of precision. I will narrow the focus on change to a few countries, and to two country clusters, where contemporary events are having a significant impact on world affairs and will continue to do so in the months and years to come. A great deal was happening in these countries and country clusters in late 2015, when a good part of this book was written. These developments will have consequences not only for their future, but for the entire world. The United States, China, India, Russia, Iran and Afghanistan—all countries covered in this work—were all in the news for a number of reasons, as were the Middle East and Europe—the two regions that also figure in the book. I provide examples of some of the developments in these places to illustrate the main point of this exercise: that what occurs in the world’s large and important countries and regions is significant for determining the shape of things to come.

If the Donald Trump phenomenon shook America, China, the rival power on the global stage, was seriously affected by a number of events, both economic and political. The stock markets in Shanghai, Shenzhen and Hongk Kong nearly collapsed in July 2015, knocking trillions dollars of value off the shares listed on them. In August, a major storage facility in Tianjin exploded, resulting in a fire that took days to extinguish.



Hundreds of people died and the damage caused by the fire was estimated at billions of dollars. Also in August the government reported that the value of the country's exports had declined by 9 % in the second quarter of 2015 compared to the same quarter in 2014. Over a few days beginning on August 11, Beijing devalued its currency with respect to the US dollar by a total of 4.4 %. As a result, stocks and commodities markets were shaken across the globe. Over three days in the third week of August, the US market shed its entire gain from the preceding eight months. But the currency move by Beijing was misread by the markets, as often happens where China is concerned. What the Chinese authorities did was to "make adjustments both in the value of its currency and in the manner in which it trades," wrote Jeff Sommer of the *New York Times*. "These moves continue an agonizing slow process that has been in place for more than 35 years. They are a small but important part of China's transformation into a modern nation."<sup>1</sup>

Moving further south and west, India, under an aggressive and assertive Hindu nationalist politician who took over as the country's prime minister in May 2014, created waves that hit many shores. In his first 15 months in office Narendra Modi traveled to more countries and met with more foreign leaders than Prime Minister Manmohan Singh did during his ten years in office. India, set to overtake China in a few decades as the world's most populous nation, wanted to be seen as a major player on the world stage. But for that to happen, it had to make peace with the countries on its border, in particular with Pakistan, with which it had fought three wars since the two countries gained independence in 1947. However, relations between the two deteriorated to the point that the national security adviser to Pakistan's prime minister said that "Modi's India acts as if it is a regional superpower. We are a nuclear-armed country and we know how to defend ourselves." This outburst was occasioned by the cancelation of the advisor's visit to New Delhi, where he was supposed to review the suspended dialogue with his Indian counterpart.

Continuing on to the Middle East, the hottest summer in Iraq in recorded history brought thousands of people out into the hot sun to demand an uninterrupted supply of electricity. The country's prime minister responded by removing several senior members of his cabinet. While the government was shaken, the country continued to lose territory to the Islamic State (IS), the self-proclaimed caliphate that sought the allegiance of all the world's Muslim population. The IS continued its record of brutality by beheading Syria's best-known archaeologist, who was trying to

protect sites in the ancient city of Palmyra that the Islamists had begun to systematically destroy.

The turmoil in the Middle East drove hundreds of thousands of refugees to the shores of Europe. Hundreds died as they attempted to cross the Mediterranean in rubber dinghies. Those who made the trip successfully were interned in makeshift camps while European leaders debated how to manage this wave of desperate people. The fact that most of those who sought asylum were Muslims complicated the decision-making process on a continent that had become wary of the growing number of people in their midst belonging to the Islamic faith. That this was a problem with no easy solution was underscored by an incident on a train heading to Paris from Brussels in which three US marines overpowered a heavily armed Moroccan who seemed ready to use his weapons to kill his fellow passengers.

All this happened within the span of a few weeks in the summer of 2015. There was no respite from such events. In fact, many more occurred. Climatologists reported that 2015 was the hottest year on record. Temperatures in one city in Iran soared to 162 degrees Fahrenheit. In some parts of the world (in the South Asian subcontinent) it was also one of the wettest, while in other parts (the west coast of the USA) it was the driest. The catastrophic consequences of global warming that science had been warning of arrived even before their appointed time.

## THE COUNTRIES THAT MATTER

Rapid change is occurring; the speed at which it is happening is without precedence in human history. This is not the first time that the subject of global change has been analyzed. Others have written about it—the works of Kishore Mahbubani<sup>2</sup> and Fareed Zakaria<sup>3</sup> come to mind. They and others have focused mostly on economics and a bit on politics. These authors have argued that after seven decades of totally dominating the global economic stage—and to a considerable extent also its political system—the United States needs to pull back a little, perhaps even quite a bit, and give space to other actors. For instance, Zakaria wrote about the “rise of the rest” when the United States’ predominant position was being challenged by a number of other countries that were catching up with the leader in terms of the size of their GNP. According to Mahbubani, the Singapore-based policy analyst, “for two centuries Asians have been bystanders in world history, reacting defenselessly to the surges of Western

commerce, thought and power. That era is now over.” But he seemed to imply that would mean the West—in particular the United States—would be shoved to the margins of the emerging global order.

This hypothesis has some support among academics. The well-known and well-regarded historian Ian Morris, for instance, has suggested that it was purely accidental that the West rose, leaving the East behind. In the opening chapter of his book *Why the West Rules for Now*, he presents a manufactured account of how an emissary sent by the court in Beijing sailed up the River Thames and was paid homage to by Queen Victoria. The queen had waited a long time while the emissary, who had arrived in a boat too large to go up the river, moved to a smaller vessel. A very wet queen, drenched by rain, received the Chinese emissary, went down on her knees and pledged her allegiance to the Beijing empress. That did not happen, of course, but, Morris suggests, history could have turned out that way. It was luck more than the West’s stage of development that led to its ascendancy and its rule over the East.<sup>4</sup>

Morris also speculates about the future and suggests that the West’s ascendancy may not last far into the future. Some of the factors that contributed to its rise may have run their course. However, other historians remain more bullish about the West’s future. For instance, David Landes, the author of *The Wealth and Poverty of Nations*, wrote that the world’s richest nations will continue to prosper because of their ability to exploit science, technology and economic opportunity. Most of all he stressed the importance of cultural values, such as a predisposition to hard work, open-mindedness and commitment to democracy, in determining a nation’s course toward wealth and power.<sup>5</sup>

Landes wrote his book a decade and a half ago and seemed to have changed his mind when he reviewed Morris’s book. In his review, he wrote: “What will a new distribution bring about? Will Europe undergo a major change? Will the millions of immigrants impose a new set of rules on the rest? There was a time when Europe could absorb any and all new comers. Now the new comers may dictate the terms. The West may continue to rule but the rule may be very different.” How different this rule will be is one of the themes explored in this book. I disagree with some of the futurologists’ view of the changing position of the United States. I will argue that America, unlike some of the earlier powers that passed the leadership baton and fell back in the “flying geese” formation, will remain one of the dominant global powers. Its fate will be different from that of Rome a couple of millennia ago or Britain a century ago. It will not simply

fade away. It will continue to have considerable influence on world affairs. To imagine otherwise means leaving out an important determinant of the global future.

Change is coming to the United States. The American electorate, preparing for the presidential election of 2016, began to react to the growing fear that the country had entered a phase of decline. They pushed Donald Trump, a billionaire and a non-politician who did not believe in political correctness, to the top of the crowded Republican field of 17 aspirants. “He’s tapped into a hunger among those who want to believe that America is not a shrinking, stumbling power passed like a pepper mill between two entitled families,” wrote Maureen Dowd for the *New York Times*.<sup>6</sup> The “entitled families” were, of course, the Bushes and the Clintons who, before the arrival of Trump, were the top contenders for the nominations of their respective parties. Nobody believed that Trump would get the Republican nomination, let alone be elected to succeed Barack Obama as the next president. But he would leave a lasting impression on the country’s politics and the way America was viewed by the world.

The most often noted example of the change that is occurring is the rise of China which, by 2015, saw the total value of its economy expand by 35 times compared to its size in the late 1970s. China’s growth has been continuous but it has experienced relatively minor hiccups associated with some major policy changes that have altered the structure of its economy. For instance, the country ran into some problems in June 2015 with the sharp downturn in the valuations of many shares listed on its stock markets. This happened largely because Beijing sought to direct domestic savings into investments in China’s private and public enterprises. But this will not hurt its prospects. The fact that China had gained ground on America was formally recognized by the International Monetary Fund (IMF). At its annual meeting in Washington DC in 2014, the IMF presented estimates of the gross domestic products (GDPs) of its member nations (Table 1.1) derived using the purchasing power parity (PPP) methodology. According to these estimates, the Chinese GDP was 8.9 % larger than that of the United States in 2015. The gap was likely to widen further, reaching 35 % by 2025, and by 2050 the Chinese economy was forecasted to be almost twice the size of that of the United States. This did not come as a surprise: even with the pace of growth slowing in China to between 6 and 7 % a year from the 10 % average in the 30-year period from 1980–2010, the rate of increase would still be more than twice that projected for the United States.

**Table 1.1** IMF projections of the GDPs of major economies, 2010–2050 (US\$ billion)

| <i>Country</i> | <i>2010</i> | <i>2015</i> | <i>2020</i> | <i>2025</i> | <i>2030</i> | <i>2050</i> |
|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| China          | 12.080      | 18.976      | 28.229      | 35.855      | 56.144      | 100.852     |
| USA            | 14.964      | 17.419      | 22.487      | 26.592      | 31.132      | 52.302      |
| India          | 5.37        | 7.977       | 12.708      | 16.665      | 21.636      | 54.979      |
| Germany        | 3.28        | 3.815       | 4.500       | 5.149       | 5.833       | 8.588       |
| Russia         | 3.031       | 3.458       | 3.957       | 4.719       | 5.717       | 10.362      |

*Source:* IMF World Economic Outlook Database, April 2015. Gross domestic product based on purchasing power parity (PPP) valuations of country GDP, current international dollars

But PPP-based GDP comparisons don't tell the entire story about the global positioning of large economies. To begin with, the per capita income gap between the two countries will remain significant. In 2050, the Chinese income per head will be \$65,000 compared to \$120,000 for the United States, or about one-half of America's. Viewed from several other perspectives, the United States will continue to dominate the world economy. Innovation and technological development, the creation of new types of corporations, a generally accommodating posture towards migrants arriving from overseas, the introduction of new weaponry, and the ability, over time, to accommodate diverse interests represented by the rapidly changing ethnic, social and religious composition of the population are some of the many characteristics that will keep America well ahead of the rest of the world. Yet these are not the only sources of America's abiding strength.

By way of an illustration, I will pick up one area in which the United States has a distinct advantage. The United States is investing in a number of technologies critical for the global future, which may lead to its dominance. The government's resources are highly constrained because of the ability of a small but influential segment of the population to reduce the size of the state by keeping it under-resourced. A number of important technological advances in the last couple of decades were the result of government initiative. It was public money, for example, that went into the development of the internet and the completion of the Gnome project. The gap between the resources needed and what the government is able to provide is being met by the private sector. Bill Gates, the world's richest man, has announced that he will invest his money—some \$2 billion

of it over the next ten years—in developing the technologies he believes the world will need. He is focusing on green technologies, including work on using nuclear fusion to generate power. But there is a problem with this way of financing technological advance. It will not necessarily result in producing social good; most of the time it will reflect personal biases.

However, what is happening in China and the United States is only a small part of what is a much more complex story of change. Other nations and regions have also become major players. In 2001, the consulting firm Goldman Sachs came up with a catchy acronym, BRICs, to designate Brazil, Russia, India and China as important actors on the global economic stage.<sup>7</sup> Later South Africa was added to provide greater regional balance to the grouping, changing the acronym from BRICs to BRICS. As shown in Table 1.2, these five countries have a sizeable global presence. Their combined population of close to three billion represents 42 % of the global population of 7.2 billion. Their combined GDP of \$34 trillion is 45 % of the world's \$75 trillion. While Russia, China and India are part of the great Asian landmass, Brazil and South Africa are on different continents and are considerably different from the other three. That they can be identified with an interesting acronym is not enough to introduce them into a group that could have significant influence on global affairs.

Not happy with the role they were assigned in the economic and financial institutions that served the world, the BRICS decided to set up their own. At their summit meeting in Fortaleza, Brazil in July 2014 they agreed to establish what they called the New Development Bank and a reserve foreign currency pool. These were to be fashioned after the Bretton Woods institutions: the International Monetary Fund and the World Bank Group. This decision served as a challenge to the established order. More

**Table 1.2** Basic Data for BRICS nations

| <i>Country</i>  | <i>Population<br/>(million)</i> | <i>GDP (PPP)<br/>(\$ billion)</i> | <i>GDP<br/>growth<br/>(%)</i> | <i>Foreign exchange<br/>reserves (\$ billion)</i> | <i>Exports (\$<br/>billion)</i> |
|-----------------|---------------------------------|-----------------------------------|-------------------------------|---|---------------------------------|
| Brazil          | 203.0                           | 3,250                             | 0.1                           | 362.7   | 396.0                           |
| Russia          | 146.4                           | 3,450                             | 0.6                           | 358.5   | 542.5                           |
| India           | 1,210.2                         | 7,990                             | 7.3                           | 352.1   | 462.2                           |
| China           | 1,354.0                         | 18,970                            | 7.4                           | 3,899.3   | 2021                            |
| South<br>Africa | 51.8                            | 725                               | 1.4                           | 47.2  | 101.2                           |
| Total           | 2,965.4                         | 34,385                            | –                             | 50,198.0  | 3,522.9                         |

*Source:* The World Bank, *World Development Indicators*, Washington DC, 2015

institutional innovations were to come later, such as the decision by China in 2014 to establish the Asian Infrastructure Investment Bank (AIIB). Despite Washington's opposition to the creation of the AIIB and pressure on its allies not to seek membership, most of its European and Asian allies rushed to join the planned institution. The clumsy American response to these institutional initiatives was an indication that Washington had not developed a well-thought-out policy to address the rapid change that was occurring in the world.

Among the countries that could be seen as important contributors to the emerging world order is India, which will soon pass China to become the world's most populous nation. This, demographers believe, will happen by 2030 when, with 1.461 billion people, India will have 17.3 % of the world's population of 8.083 billion people. The role India will play in the future will be determined in part by the policy choices its leaders make. They could attempt to make their country become a "balancing power" for a rising China. This approach was adopted by the Barack Obama administration in the United States. Or, they could work with Beijing to lead Asia in what Kishore Mahbubani has called the Asian century. India, at the time of writing in late 2015, had a new prime minister whose party, the Hindu nationalist Bharatiya Janata Party (BJP), had scored a stunning victory in the elections of May 2014. Modi was able to form a one-party government, leaving behind the coalition politics that had dominated India's political landscape for decades. Unconstrained in the use of power, the new prime minister upset several apple carts. Among them was the delicate balance previous governments had managed to achieve between two large religious groups in the country—the Hindus and the Muslims. The former made up 80 % of the country's population but was yielding some demographic ground to Muslims, whose proportion in the population was growing and was estimated at 14.88 % in 2014. According to a 2006 report prepared by a committee appointed by then Prime Minister Manmohan Singh, if the current fertility trend continues, by the end of the twenty-first century India's Muslim population will reach 320–340 million, or 18–19 % of India's total projected population of 1.78 billion. In October 2015, shortly before the citizens of Bihar, the country's third-largest state, went to the polls, several extremist Hindu groups targeted Muslims. They were angered by the continued consumption of beef by the Muslim population, the cow being considered a sacred animal by most Hindus. Modi's reluctance to condemn this kind of violence resulted in his party being trounced in the Bihar elections. Less than a week after the

Bihar debacle, four veteran BJP leaders issued a stinging rebuke to Prime Minister Modi, accusing him of creating a personality cult that had done harm to the consensual basis on which they and their generation had built the party. If a large segment of the Indian-Muslim population becomes disaffected, it might encourage extremist groups such as al-Qaeda and the Islamic State of Iraq and Syria to try to make inroads into the country.

Communal harmony was not the only problem that needed to be addressed by the new Indian leadership. Modi had promised to apply to the whole country the Gujarat model, which had made the state in the western part of India the fastest growing in the country. The main element of this model was the expanded space given to private enterprise, which was able to attract new technologies and foreign capital into the state. Whether this model could be used in the rest of India would depend upon Modi's ability to provide the poor with jobs and increased incomes rather than subsidies and government hand-outs.

Russia is another country that should be included in the story of global change. Its revanchist outlook under President Vladimir Putin brought the world to the brink, raising the question whether the country could be tamed and once again brought back into the global system as a responsible player. The hope that Russia would join the West and pursue both market capitalism and liberal democracy was not realized. It had sought to Westernize its economic and political systems while President Boris Yeltsin was in charge. The country applied for membership of the International Monetary Fund, the World Bank Group and the European Bank for Reconstruction and Development. It was accommodated in all three and was also invited to join the G7, the rich nations' club, which then became the G8. However, Putin, who succeeded Yeltsin, had his own vision for the country he now led. Unlike his predecessor, he was nostalgic about the past. His aim was to reclaim the boundaries of Czarist Russia. He also tried to redevelop close relations with the countries in Central Asia that had been part of the Soviet Union.

How to contain Russia's expansionist ambitions became an important Western concern, especially after Moscow re-established control over the Crimean Peninsula and began to carve up Ukraine, a large country on its western border. Russia's aggression posed a serious challenge for the Obama doctrine of relying on "principled negotiations"—a term coined by Roger Fischer and his colleagues to explain the type of approach the American president was pursuing. Obama was clear that the use of force



should be the last, not the first, option for the United States even when it came face to face with actors on the world stage who thought and acted differently.

While the United States, China, India and Russia are large countries, some relatively small ones also need to be included in the picture I am painting in this work. Afghanistan and Iran will continue to be important in shaping the global future. When this work was written, the United States had been at war in Afghanistan for 14 years, making it the longest international conflict in which it had participated in its history. But winding down the war without winning it will leave Afghanistan highly unstable. Its instability could impact developments in many parts of the Muslim world and perhaps also in India, with its large and increasingly disaffected Muslim population.

Iran, virtually excluded from the global system for almost four decades—since 1979, when the Islamic (Shiite) regime was inaugurated in the country—began the process of rejoining the world from which it had been excluded for so long. The change in Iran's situation was the consequence of the agreement it signed with a group of countries identified as P5+1—Britain, China, France, Russia, the United States and Germany. The first five were the permanent members of the United Nations Security Council. The deal was signed on July 14, 2015. It was aimed at preventing Iran from acquiring nuclear weapons for at least ten years. The agreement will have enormous consequences for Iran, whose continued isolation would have exacerbated the growing tension between the Sunni and Shiite sects of Islam that have been at loggerheads for centuries. By concluding an agreement to forestall Iran's ambitions to become a nuclear weapons state, world leaders should be able to prevent an arms race in the highly unstable Middle East. The agreement with Iran lends support to the main argument advanced in this work: that the problems posed by the immense changes the world is undergoing at this time could be—in fact should be—dealt with through negotiations rather than open conflict.

President Barack Obama brought about a fundamental change in the way his country dealt with problems outside its borders. Prodded and pushed by the American president, the world, fatigued by the warfare of recent years, was trying out Obama's approach, to work on some of the problems in the international arena at the bargaining table instead of on the battlefield. In his first campaign for the presidency, Obama had vowed to talk with America's enemies. "Now with the Iran deal in hand and the reopening of an embassy in Cuba, this month, Mr. Obama is realizing that

aspiration,” noted Peter Baker of the *New York Times*. “This has become a season of diplomacy. At the same time he is securing pacts with Tehran and Havana, Mr. Obama hopes to work out a trade agreement with 11 Pacific Rim nations by the end of this month. European leaders have just negotiated at least a temporary economic accord with their Greek debtors. And the United States is trying to broker a global climate change agreement before a Paris summit meeting in December.”<sup>8</sup>

## TWO REGIONS WORTH WATCHING

Two regions will be important for the global future. Both are going through arrested development. The Middle East, made up mostly of artificially created Muslim states, is in the process of redefining itself. Its relatively homogenous population was split into a cluster of nation-states that, over the long run, were not viable. The borders drawn by Britain and France, the European powers that took over control of the area from the collapsing Ottoman Empire, were hard to protect. The latest challenge comes from an entity that has called itself the Islamic Caliphate or the Islamic State. The rise of the IS, not simply as an ideology but also as a state with an expanding geographical reach, has posed serious problems for other Muslim countries as well as for the West. For the former it is challenging the notion of nation-states with well-defined boundaries run on the basis of laws that, at least in theory, accommodate diversity. These principles of governance would not do for those who lead the IS. The group revived the concept of the caliphate, a system of governance that has power over all followers of Islam no matter where they are located. And their approach, which they claim is based on the Koran, does not provide space for those who follow different belief systems.

Some of the IS’s support comes from unlikely places. It has attracted thousands of young men and women to fight for its cause. Many have come from Europe and some from the United States. Most—but not all—belong to the Muslim diasporas formed over the last several decades by the migration of hundreds of thousands of people from the crowded countries of Asia and Africa. Many members of these diaspora communities have not become fully integrated into the cultures of the countries where they have settled. Their resentment is one reason they are attracted to the type of extremism espoused by the IS. However, as revealed by a detailed investigation carried out by the *New York Times*—a story it spread over three and half print pages, unusually long for the newspaper—the Islamic State was

also reaching out to non-Muslims. The newspaper investigated the case of a young Christian woman from a town in the western state of Washington, who first converted to Islam and then was attracted to the Islamic State. The paper called her Alex to protect her identity, and described her drift towards the Islamic State. “Alex’s online circle—involving several dozen accounts, some operated by people who directly identified themselves as members of the Islamic State or whom terrorism analysts believe to be directly linked to the group—collectively spent thousands of hours engaging her over more than six months. They sent her money, and plied her with gifts of chocolate. They indulged her curiosity and calmed her apprehensions toward the hardline theological concepts that ISIS is built on.”<sup>9</sup> Alex joined the Islamic movement but was rescued from it. She had received much attention from the followers of IS as a test of the group’s belief that they could penetrate even non-Muslim populations in the West.

Disgruntled Muslims in the West are not the only ones attracted to the various versions of Islamic extremism. The youth in parts of the Muslim world where political systems remain relatively underdeveloped are also drawn to it. The thoroughly alienated youth of different communities talk to one another via the internet. This mode of communication is one of the adverse consequences of the process of “globalization” that has been celebrated by such influential economists as the Nobel Laureate Joseph Stiglitz and the *Financial Times*’ Martin Wolf.<sup>10</sup> The Islamic State, in other words, is a phenomenon that has combined a number of changes occurring in a rapidly globalizing world.

A particularly gruesome example of this kind of radicalization came in late June 2015 when a lone 24-year-old Tunisian gunman shot and killed 35 tourists, mostly British, at a resort hotel near Tunis. Seifeddine Rezgui, the gunman who was shot dead by the police, gave no indication to his friends and family that he had been so thoroughly radicalized that he was prepared to take many innocent lives. The Tunisian authorities uncovered a large network of Islamists, most of them sympathetic to the cause put forward by the Islamic State. According to an account in the *New York Times*, “Mr. Rezgui’s Facebook page revealed extremist leanings. His profile photos included the logos of his favorite soccer team, Club African, but also the black banner of the Islamic State, which he made his cover photo in June 2014.”<sup>11</sup>

Western Europe is another region in turmoil. The European Union developed slowly into a supranational organization but has found it difficult to deal with the many problems that have created considerable

national anxiety. “We are in a new place, and people are right to be worried about the political direction,” Simon Tilford of the Center for European Reform, a London-based research institution, wrote. “The Eurozone crisis, combined with outside trends like migration and globalization, has exposed the disconnect between domestic politics in many countries and E.U. politics.”<sup>12</sup> Once upon a time Europe had a dream. It would yoke neighbor to neighbor under a common economic system and thereby end a centuries-long tradition of states destroying one another with bombs and bayonets, cannons and crossbows, machine guns and mustard gas. But the continent woke up from that dream to find that the once-warring states had “just found themselves a new weapon to use against each other: debt.”<sup>13</sup>

The crisis into which Greece threw the rest of Europe was the result of an inherent flaw in the concept of the Union. The fathers of the European Union, satisfied with the working of the core set of nations that were at about the same stage of economic and social development, overreached. They used the Union to achieve political ends. These included the consolidation of democracy in the countries in the south of the continent that had suffered under military rule for decades. The other expansion of the Union to the east, right up to the border of Russia, brought in the countries to which Moscow had exported communism when it was the capital of the Soviet Union. Marrying economics with politics is possible only when the two are subject to the same sets of rules. That is the case in the United States, but even there the south has not fully reconciled to the north’s social and political values even 150 years after the conclusion of the Civil War. The American economist Milton Friedman predicted two decades ago the events that unfolded in Europe in the summer of 2015, in an essay detailing the best (the United States) and worst (Europe) conditions under which to create a currency union. In Europe, where countries are divided by language, customs, regulatory regimes and fiscal policies, a common currency would inevitably prove disastrous, he wrote. Shocks hitting one country would heave themselves across the continent if individual countries could not easily adjust prices through their exchange rates. Rather than promoting political unity, Friedman argued, “the adoption of Euro would have the opposite effect. It would exacerbate political tensions into divisive political issues.”<sup>14</sup>

Geography and demography have placed Europe at the center of human affairs. It is separated from Africa by a relatively narrow strip of water. The Mediterranean has not proved difficult to cross even in rickety boats,

bringing tens of thousands of desperate refugees to European shores. Their arrival has posed a number of dilemmas for European nations—some moral, some political and some cultural. The Mediterranean also divides a region with low human fertility rates (Europe) from those that still have considerably higher rates (Africa, the Middle East and South Asia). But this demographic asymmetry will not get sorted by the movement into Europe of poorly educated and unskilled migrants. What Europe needs are well-qualified and talented youth to provide it the skills its own aging population cannot provide.

### ISSUES THAT, LEFT UNRESOLVED, WILL HURT THE WORLD FUTURE

While these six countries and two regions will play major roles in the unfolding global drama, there are a number of developments not confined to national events that will also challenge policymakers and the populations they serve. These include demographic change, which is proceeding in different directions in different parts of the world. There is an asymmetry in the way populations are growing in developed and developing countries. Populations in rich countries are rapidly aging, while those in most developing countries remain young. The population deficit in the former can be met by the surplus in the latter, but there is an almost total absence of political will to accommodate very large numbers of foreigners with different cultural, racial and religious backgrounds among relatively homogenous European populations.

Demographic change in developing countries is also producing rapid urbanization and the development of megacities. Some large cities have been hit by violence as their political systems have not developed to accommodate the different interests of the migrants who have flooded in. Karachi in Pakistan is a good example of a city exploding in size as a result of a series of migrations that the politically poorly developed city was not able to accommodate. By 2015 the city was 60 times its size in 1947 when it was chosen to become the newly independent Pakistan's first capital. It then had to absorb 1.5 million refugees who arrived from India into a population that was just over 400,000. Later, migrants arrived from Pakistan's troubled tribal belt and also from Afghanistan. Absent a political system, Karachi's diverse population very often resorted to the use of violence as a form of political expression. The military was called in on several occasions

to restore peace. The army's work disrupted civil–military relations, interfering with Pakistan's political development. The military was back in play in Karachi in 2015.

There is a growing debate in academic circles as well as among policy analysts about the significance of technological change for the world's future. Some argue that the pace of technological advance in the late nineteenth and early twentieth centuries cannot be matched by what is beginning to occur with the computerization and robotization of the world economy and society. But according to some analysts and historians, the current change is even more profound than the one that occurred a century or so ago. To take one example, agricultural mechanization produced labor surpluses in the countryside that were accommodated by migration into towns and cities and absorption of workers in industry and commerce. Later, Henry Ford's production line industrial processes, and later still the outsourcing of low-skill and repetitive jobs, produced another wave of migration—this time to the service sector. Now, with the increased introduction of robots into the workplace, another kind of labor surplus is being produced with nowhere to go. This type of technological advance poses another challenge for the global system.

The third issue of global significance to be included in this work is international trade. Formulating universally accepted rules of trade was one of the challenges policymakers faced following the conclusion of the Second World War. At the 1944 Bretton Woods conference of the war victors an attempt was made to create an interconnected financial, development and trade system. The first two objectives were met with the establishment of the IMF and the International Bank for Reconstruction and Development (IBRD), now the World Bank Group. However, it took 50 years to create the World Trade Organization (WTO). Trade among nations turned out to be a much more contentious issue than the flow of finance. Within two decades of the creation of the WTO, the world's economically powerful nations effectively undermined the relatively new organization. Competing rules were written by several large groups that resulted in trade being guided by region-focused rules rather than universally accepted norms. The consequence was a more fragmented world.

And then there is the problem created by global warming which is attributed to human activity. Resolute and politically difficult actions will be required at the global level to prevent global warming from turning into a major catastrophe. There is scientific consensus that this will happen if temperatures increase beyond 2 degrees centigrade compared to

the average in the pre-industrial era. Pope Francis set off an uproar over his document on the environment and the threat of climate change, a 246-paragraph encyclical released on June 18 called *Laudato Si* or *Praise Be to You*, in which he called for urgent action. “Climate change is a global problem with grave implications: environmental, social, economic, political and for the distribution of goods,” the Pope wrote. “It represents one of the principal challenges for humanity today.”<sup>15</sup>

### WHY INSTITUTIONS MATTER

For decades development theory and practice were dominated by thinkers from several different disciplines. However, disciplinary boundaries were seldom crossed; if they were crossed, as was done by the Nobel Prize-winning sociologist-economist Gunnar Myrdal in his magisterial work *Asian Drama*, the focus was on the short term. He developed the concept of the “soft state,” a style of governance not sufficiently strong to override deeply embedded interests.<sup>16</sup> This began to change once the complexity of the problems faced by the developing world came to be appreciated and better understood. Those who had hands-on experience in development work came to understand that political, social and economic developments interact with one another. History also plays an important role. In my own work, I have taken the position that without political development—and that means creating a set of institutions that are inclusive—sustained economic advance is difficult—perhaps impossible. Poorly developed political systems don’t serve the weaker segments of the population. Widespread corruption is one way that less developed systems manifest themselves.

There are many examples of how corruption can stall economic advance even when political power has been gained by those who promise clean governance as a way of making economic progress. The case of Pakistan is interesting and instructive. It is widely recognized that the country experienced a serious economic slowdown in the period from 2006–2013 because of the poor governance provided by the government of President Asif Ali Zardari. The president himself and his two prime ministers faced charges of corruption that are still pending against them. China is another example. President Xi Jinping, upon assuming office, pledged to stamp out corruption, reduce income inequality and increase his country’s stature in the world. As will be discussed in Chap. 4, in India, the administration headed by Prime Minister Modi found it difficult to manage a controversy involving a minister in New Delhi and a chief minister in one of the states

under the governing party that received a lot of public attention. These two were allegedly involved in profiting from the way the highly lucrative private cricket league was being managed by a set of entrepreneurs who were close to these influential politicians.

There are several other challenges the world faces today, and all of them need action by individual nations or groups of nations working together. Some of them—for instance, the ongoing conflict in the Middle East—will take a long time to resolve. It will have to be sorted out by the groups and countries that are currently engaged in it. Outside involvement will only complicate matters and possibly spread the conflict beyond the areas to which it is at present confined.

One of themes developed in this work is that it is essential to develop institutions of governance not only at the national level but also at the international level. Institutions are needed to accommodate the aspirations of different segments of the population and different national interests. The steady progress made by the non-communist world in the period after the Second World War was made possible by the establishment of what came to be known as the Bretton Woods institutions. One weakness of the system was that it did not have built-in mechanisms to accommodate change. It could bring in new members, as was done with the 1981 admission of the People's Republic of China, and then Russia a decade later, into the Bretton Woods institutions, but their role in managing them remain limited. The effort by the Obama administration to give China a larger role in the IMF was blocked by the US Congress. Institutions succeed only when they have the flexibility to change. The gradual evolution of the American political structure is a good example of accommodative change and interests.

Institutions are durable if they are brought into existence through consensus among those who will be governed by them. This was the case with the Bretton Woods institutions. They came into being as the result of the agreement thrashed out by the conferees at Bretton Woods. An exceptionally destructive world war helped to focus the minds of the victor nations. This book argues that the world is in the throes of a series of changes that are as significant as those that were brought about by the Second World War. But there is an absence of consensus among the large economic and political powers. This has resulted in the great powers going it on their own. One example is the decision by the Chinese authorities acting on their own to establish a new development bank, the Asian Infrastructure Investment Bank. As persuasively argued by Subrata Mitra and his coauthor



in a 2015 article, the parties involved in “principled negotiations,” whose aim is to reach agreement, must move away from adopting hard positions before beginning talks. That approach will not lead to reconciliation. They need to factor in the interests of the other side with the view to accommodating them.<sup>17</sup> This was also the theory developed by the economist John Nash, who was the subject of an award-winning movie, *A Beautiful Mind*. The “Nash equilibrium” is the result of parties agreeing to settle for the “second best” outcomes.

Flexibility and accommodation are also required at the national level. As the American and Indian experiences amply demonstrate, constitutions are not written in stone. Most often, provisions are made for making amendments in writing that are subject to judicial interpretation. The institutions that underpin the American political order were not fully formed when the country’s founders wrote and adopted the US Constitution. The system has adapted to change, and that has proved to be its strength. During the week of June 22, 2015, for instance, the Supreme Court issued a number of rulings that will have profound impacts on the way the country is governed. According to one, the laws passed by Congress should not be read literally but according to the intent of those who wrote them. According to another, the Constitution’s provision of equal rights should be read to include all segments of the population, including gays and lesbians. In other words, all institutions, be they at the national or state level, must have the flexibility to accommodate change. This is only possible if the institutions respond to what the citizens of a country want, and what member states desire at the global level.

Some of the problems this book will detail will require global action to be solved. A repeat, perhaps, of the Bretton Woods conference, held at a resort in New Hampshire in the United States, will be needed. The institutional underpinnings of the system that was developed at the conference, convened in 1944 while the Second World War was winding down, served the world well for more than half a century. One problem—the increasing competition between the United States and China—will require the two nations to focus on the sets of issues highlighted by each government with respect to the other. As Henry Paulson and Robert Rubin, both former United States Treasury Secretaries, suggest in an article for the June 2015 issue of the *Atlantic*, the differences could be resolved if the two nations, rather than looking critically at each other, turned their attention inwards to work on the blemishes recognized in their systems by the other side.<sup>18</sup>

## ARE STRONG LEADERS NEEDED TO MANAGE CHANGE?

Institutions go a long way in formulating and directing the response to environments in which they are operating. This has been the case in particular since the collapse of the Soviet Union in 1991. According to Francis Fukuyama, that seismic event represented the “end of history.”<sup>19</sup> Liberal democracy, which provided representation for all segments of the population within an established legal framework, was the natural route to take for nation-states. Even those who were not practicing this philosophy of governance would eventually get there. The arc of history would bend in that direction and it would not require the hand of strong leaders. But that did not turn out to be the case. Fukuyama changed his mind. His subsequent two-volume work reflected on how even the political systems of liberal societies can decay following impressive development.<sup>20</sup> In the second half of 2015, at the time of writing, the countries I have identified as those that will define the global future are led by strong leaders. It is an accident of history that they have arrived on the world scene at about the same stage. Will they be able to work together and define a new global system, or will they enter into conflict? The world’s future depends on how this question is answered.

President Barack Obama took office in January 2009 with the enthusiastic support of the youth and the underprivileged segments of American society. He was expected to govern strongly—“yes, we can” was the slogan of his successful campaign—but his several efforts to respond to the changes he talked about in 2008 were resisted by the establishment. That said, he is likely to be saved by the developments that occurred in the week of June 22 to which I have already referred. In addition to the Supreme Court’s decision to save the Affordable Care Act, also known as Obamacare, to extend the definition of marriage to gays and lesbians, and to lay down that the ultimate authority in a political system rests with the people and not with those whom they elect to legislate, Congress also gave him the authority to negotiate a trade deal with 11 states on the Pacific Rim. Finally, the week ended with President Obama delivering his eulogy to Clementa Pinckney, the pastor slain the previous week by a white supremacist along with eight of his congregation. “With a force no other president could have summoned, Mr. Obama drew on the revivalist oratory of black church tradition to shame the culture of hatred that led to the massacre,” wrote Edward Luce for the *Financial Times*. “Even by Mr. Obama’s standards, it was a striking performance

that combined the repudiation of the South's racist history with a rallying cry to a new era of social justice. Those who saw it could sense the 'arc of history' bending in Mr. Obama's direction and the fierce relevance of his story. Mr. Obama went to Charleston to speak at a funeral. He left at the emotional pinnacle of his presidency...Last week brought to the fore both the majesty and limits of the US presidency. It would not have been the same on any one's watch."<sup>21</sup> As already indicated, and discussed in greater detail in Chap. 7, the agreement reached with Iran on July 14 was another feather in Obama's cap, which reinforced his strong belief that negotiations rather than war were the only way to handle differences among nations and groups within nations if the aim was to find durable solutions.

The Chinese have also put a strong individual in command of their state. Xi Jinping, who took office as president in the spring of 2013, also serves as the chairman of the all-powerful Communist Party of China. Having followed into office Hu Jintao, who had served in the same positions for ten years, from 2003 to 2013, President Xi did not take long to consolidate his power. He has arrived on the domestic scene and on the world stage at a critical time for China and the world. As the magazine *The Economist* in its special report titled, "Xi must be obeyed" wrote: "it may well be that the decision to promote Mr. Xi was itself a collective one. Some in China have been hankering for a strongman..."<sup>22</sup>

The Indian elections of April–May 2014 brought to power a charismatic man with strong beliefs, many of which are anchored in conservative Hinduism. Having governed the state of Gujarat in western India for a dozen years, Narendra Modi had shown that strong leadership can have beneficial consequences. The state had the highest rate of economic growth of any state in India. Modi had followed a path that was different from the one taken by Jawaharlal Nehru, one of the founding fathers of modern India. Nehru was an avowed socialist and, as such, a believer in a strong state. To use a statement made popular by Lenin, Nehru had put the state on the commanding heights of the Indian economy. He governed India for 17 years; even after his death in 1964, the Congress Party, which led the movement to free India from rule by Britain, continued in his steps and kept a strong state in place. India departed from the Nehruvian philosophy of governance in the early 1990s when, under then Finance Minister Manmohan Singh, who later ruled for ten years as the country's prime minister, the state pulled back and gave space to

private enterprise. This move released the pent-up growth in the Indian economy and brought a fourfold increase in the size of the GNP. The country's turnaround brought in large amounts of foreign direct investment, particularly in the modern service sectors. In 2010, while on his second visit to Asia, President Obama famously declared India "is not to a rising power, but a power that has already risen." The American president started to court India with a view to check an increasingly assertive China under President Xi.

Modi became prime minister in May 2014 and promised major changes in the way this large country was to be governed. He also promised that his country would take what he regarded as its legitimate place on the global stage. To make that happen, India will likely have to confront China, which has risen more than India in economic terms, follows an entirely different governing philosophy and is now competing with the USA in creating a sphere of influence that overlaps that claimed by Washington.

Vladimir Putin, who has governed Russia for 15 of the 24 years of the post-Communist rule of the country, has revived the rule of the strongman that has been common in the nation's history. The mix of governance practices he has followed will, in all probability, be hard to reconcile. And finally, Angela Merkel of Germany has provided strong leadership that is obviously valued by the citizens of her country, who have allowed her to govern for ten uninterrupted years since November 2005. She is also the strongest leader in the European Union, which has had to deal with a number of problems that have raised serious questions about the long-term viability of the European arrangement.

Will these strong individuals be able to work together to craft a new world order by surrendering their national interests in favor of achieving the global good? The answer to the question depends on how well they grasp the full significance of the global changes that have occurred in the first decade and a half of the twenty-first century. The changes identified here cover a number of countries, two unsettled regions, and a number of issues that will matter for the future of the global system. This book is an effort to explain the nature and scope of the changes and to alert the world's leaders and the citizenry that they need to act in concert to devise the institutions that will guide the world in the decades to come.

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