

# The Rise of the Rest

By WILLIAM H. OVERHOLT

The 1990s were marked in the West by triumphalism. The “end of history” thesis, articulated by Francis Fukuyama, argued that a combination of liberal democracy and market capitalism had become so dominant that, with communism and fascism vanquished, the Western way of governance would no longer face significant challenges. This thesis held that the West, and specifically the United States, had no effective rivals and for the indefinite future could rule at will.

Most noteworthy in the first decade of the new century, however, has been the appearance of nascent power centers outside the traditional Western sphere, especially in Asia. On balance, this is a positive trend, but it poses a long-term challenge to the U.S. global standing.

**Implications.** What are the implications of this new era of rapid growth in “the Rest,” especially Asia?

First, *the consequences of the “Asian Miracle” have so far been extremely stabilizing.* Rapid growth has stabilized the internal politics of countries from Japan to Indonesia. As late as the mid 1960s, Japan’s internal stability seemed to be in doubt. Moreover, Indonesia contained both the world’s third largest communist party and more Islamic militants than the rest of the world combined. Following a severe crackdown on the communist party in 1965, the Suharto government launched an era of rapid growth that significantly diminished political unrest in most of the country. Economic growth has also stabilized regional geopolitics. Ideological demagoguery and proselytizing have declined throughout the Asian Miracle region. The ability to achieve national prestige and influence rapidly by focusing on economic growth, together with

the costs that modern military technology imposes on any attempt to achieve those goals by military means, have led to a vast shift of strategy from geopolitical aggressiveness and territorial disputes to economic priorities.

This shift has occurred throughout the entire Asian region. South Korea moved from a failed strategy of military priorities under Syngman Rhee to a brilliantly successful economics-focused strategy under Park Chung Hee and his successors, leaving the economy of the once hapless South Korea over 22 times larger than that of its formerly superior northern rival. Other regional successes have included Indonesia, which abandoned territorial claims covering most of Southeast Asia, and China, which has settled 12 of its 14 land border disputes to the satisfaction of the other parties and which has embarked on a remarkably successful campaign of “friendship diplomacy” in order to focus on economic development. India, which has also adopted “friendship diplomacy,” shows early signs of making a similar shift, despite greater difficulty. None of the rapidly rising Asian powers has yet shown any inclination to revert to obsolete territorially focused strategies. This shift toward stability appears to belie the argument among prominent realists that rising powers are invariably disruptive. Asia’s shift to stability shows that similar economic progress could stabilize other regions.

Second, most of these great economic successes have been based on movement toward integration into the Western-style market economy and acceptance of the basic institutional arrangements the West created after World War II: relatively open trade and foreign investment, a competitive internal market, market-driven domestic pricing for most things, Western-type law,

a substantial degree of freedom of inquiry, considerable freedom to travel and exchange ideas, Western-style capital markets and banking systems, and engagement with the most important Western economic institutions (notably the IMF, the World Bank, and the World Trade Organization [WTO]). None of these movements is irreversible, but the dominant trends in these success stories have included rejection of autarky (Burma vs. Thailand), xenophobia (Sukarno vs. Suharto), the command economy (North Korea vs. South Korea), arbitrary personal rule (Mao Zedong vs. Hu Jintao), and other forms of behavior that are antithetical to the modern market economy.

Third, convergence in economic policy has been accompanied by some elements of convergence in systems of governance. So far, all of the fully successful industrialized Asian economies, from Japan to Indonesia, have adopted variants of democracy from fully competitive democracy (Taiwan,

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South Korea, Indonesia) to dominant-party democracy or quasi-democracy (Japan, Malaysia, Singapore). Those in earlier stages of development have all had to accept key elements of the Western system of governance, such as some degree of freedom of inquiry, increasing transparency, Western-style legal norms, reduction of arbitrary rule, and the like. But the degree to which China and Vietnam will be compelled to

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Workers process piles of carrots in China as wholesale market price hit lowest point in 15 years

AP/Wide World Photo (Chen Xiaodong-Imaginechina)

follow the paths of South Korea and Taiwan remains open to question.

Although the eventual degree of convergence remains quite controversial (can China and Russia sustain capitalist autocracies?), the degree that has already been reached constitutes a substantial triumph of Western norms. The argument can be made that, on the one hand, continued success on the part of the rising powers will require a good deal more convergence with Western political norms. On the other hand, the successful emerging economies may also develop competitive advantages that force traditional Western systems to bend some old norms. European-style pension systems and adversarial unionism are potential candidates for Darwinian decline, along with American-style lack of national infrastructure planning and low educational standards.

Finally, the balance of influence in all the major institutions of the post-World War II world—the IMF, World Bank, WTO, United Nations, and others—will have to shift; those institutions must either bend or break.

**Crucial Uncertainties.** Projecting economic growth is rife with uncertainties. A generation ago, many people believed that

Japan's continued success would make it the world's leading economy. There are even greater uncertainties about how economic prowess will translate into geopolitical influence. A few of these uncertainties will be highlighted here.

Most obviously, both the success of the West and the rise of "the Rest" have depended on the steady progress of globalization. So long as globalization advances, the most open economies win, but by the same token, they will be the ones most damaged by a crisis of globalization. Singapore, Hong Kong, South Korea, and Taiwan would be devastated. The trend toward competing geopolitically on the basis of economic priorities rather than military ones would surely be reversed in many places. Raw materials producers would suffer severely from declining demand and radical price collapses. Financial markets would suffer catastrophic reversals, with the United States, Germany, and the United Kingdom probably hurt the most. The reverse sequence is also possible: the financial crisis that exploded in the late summer and early fall of 2008 could deal a serious blow to globalization, depending on how

quickly recovery proceeds and confidence in the financial system is restored.

A second great source of uncertainty is the impact of demographic differences. Many countries, including most of the rich ones, are graying, meaning that the number of productive workers is declining relative to the number of elderly retirees. In countries such as Japan, where there is resistance to immigration and radical domestic productivity reforms, graying implies relative economic, and probably geopolitical, decline. In the United States, tendencies toward graying have so far been more than offset by immigration and rising productivity.

The greatest contrast in approaches to demographic challenges is between India and China. India is betting on continued population growth to avert graying, but it has so far failed to provide the education and infrastructure to ensure that its large and youthful workforce will have the requisite ability to work competitively and productively. India's risk is that whole population segments and geographic regions will be left out of or prove unable to cope with global competition, and that severe social unrest will ensue. An indigenous Maoist insurgency is already

taking advantage of popular disaffection in some of India's poorest states. China, on the other hand, has recently recommitted itself to a "one-child" policy (a partial misnomer) that ensures a rapid decline in the ratio of the working population to the nonworking. China is betting that rapid progress in education,

a transformation will gradually diversify the economic basis of geopolitical influence to an extent that permanently reduces Western dominance of global prestige and power. Paradoxically, the relative decline of the West represents the victory of what Singapore's Kishore Mahbubani calls key Western contributions to

globalization. Doing so will require major changes in tax, welfare, and education policies. There will also be a need for a Presidential campaign to educate the public about the changing global economy. The President will have to explain why Americans should welcome, rather than fear, rapid economic growth in China and India. He will need to point out, for example, that surging Asian demand for African energy and raw materials is boosting growth rates in Africa and reducing the risk that jihadism will spread throughout the continent.

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infrastructure, urbanization, and globalization, combined with a relative reduction in environmental stress, will raise productivity and offset the effects of graying. These contrasting strategies comprise one of the most consequential bets in human history and may largely determine Asia's and the world's future economic and geopolitical balance.

A third source of uncertainty centers on energy and food prices. The 2008 upsurge may be prolonged if demand continues to rise faster than supply, or it may prove to be a temporary phenomenon, either because supply catches up or because growth slows down. The effects will vary enormously from country to country. Moreover, the long-term consequences of sustained high prices depend heavily on whether today's primary consumers compete destructively or, for instance, collaborate on clean coal technologies that could shift the economic and geopolitical balance away from the Middle East and toward the United States, China, and India. The world's future economic and political balance hangs on these multiple layers of uncertainty.

Finally, climate change is another great unknown. Desertification, declining fish populations, the melting of the polar icecap, and other aspects of climate change are to the advantage of some groups economically, while giving the disadvantage to others, and will potentially cause political strife both within and between countries. Governments are already jockeying over competing claims to possible energy resources under the ocean floor, while access to water is an increasingly likely source of conflict across many parts of the world.

Despite these uncertainties, Asia's political evolution and economic success seem almost certain to bring new stability to key areas of the world by persuading its governments to selectively adopt market-oriented economic policies and substantial elements of Western-style political management. Such

the "march to modernity": free markets, science and technology, meritocracy, pragmatism, a culture of peace, the rule of law, and education.

**Issues for the New Administration.** The rise of new powers and the failure of others to adapt create profound challenges for the new administration. First, continuation of the virtuous circle whereby globalization creates economic takeoffs, and economic takeoffs in turn stabilize world politics, can only occur if the United States leads. But instead of celebrating their successes, Americans have fallen into a mood that assumes, falsely, that the United States cannot compete successfully against rising economic powers and that the emergence of new powers inevitably brings increased risks of violence and instability. If the current defeatism is not overcome, the United States will suffer disproportionately in any crisis of globalization. Reversing this defeatist mood will require strong, positive political leadership.

More specifically, the executive branch and Congress will have to work together to find new ways to distribute the fruits of

Second, economic and geopolitical changes will challenge many assumptions and force many institutional changes. The governance of all major global institutions will have to be revised to accommodate the new powers. Otherwise, these institutions will become ineffective and discredited.

Third, the President will need to find ways to draw more of the Islamic world into the global economy. It was economic globalization that substantially ameliorated radical Islamism in Indonesia, Malaysia, and India.

Finally, there is no possibility that the United States will be able to extend its military dominance to every country in the world. It needs allies more than ever. But the U.S. alliance system will have to adjust to the relative decline of Japan, an important partner that in some ways is failing the test of globalization, and to the emergence of China, which is embracing globalization relatively well and which, despite its serious domestic challenges, will necessarily be a principal U.S. partner on a range of global issues.



International Monetary Fund financial committee meets in Washington, 2008

AP/Wide World Photo (Stephen Jaffe)