Globalization 3.0

On or about December 11, 2001, a new era of globalization dawned. Now the West must cede command to others.

BY MARTIN WALKER

At some point in the last few years, that overworked phrase "the post–Cold War world" fell out of fashion, and has yet to be replaced. It was neither a satisfactory nor a popular way of describing the strange and somewhat anomalous time after the Gorbachev reforms and the subsequent collapse of the Soviet Union rearranged the geopolitical furniture. Some preferred to describe the 14 years after the fall of the Berlin Wall as America's unipolar moment, the period when it was the sole and unquestioned hyperpower, uniquely and unprecedentedly dominant in the military, economic, technological, and even cultural realms.

That brief era was ended by the wretched mismanagement of what seemed at the time to be the unipolar power's finest hour, its whirlwind defeat of the Iraqi army in 2003. But neither the military nor the civilian administrators were capable of managing the aftermath of the war. Now, with its alliances weakened, its finances in grievous disrepair, its cultural and political appeal tarnished by Abu Ghraib and Guantánamo, America's magnificent military machine has been checked and humbled by a ragtag assortment of insurgents, terrorists, and roadside bombers, and the political will of the American people to sustain the mission has been subverted.

So what should we call the troubling era we now all inhabit? Historians may look back and question whether 9/11 was a decisive moment, at least in global terms, despite its dramatic impact on Americans' psychology, including their sense of invulnerability. They may even give the end of the Cold War second place in importance to the rise of China and India.

In the grand sweep of history, the triumph of globalization has been one of the greatest achievements of the human race. The new world economy has quickly hauled hundreds of millions of people out of abject poverty. They have jobs and savings, and can think about investing in the future of their own children, even about a more comfortable old age for themselves. They can afford to have dreams as well as possessions and to think about the years to come with some confidence rather than dread.

Heady projections of current trends suggest that within 20 years the Chinese economy will surpass that of the United States, and in another 10 or 15 years after that India's economy will have outdone them both. Maybe—many pitfalls lie ahead for both countries and their teeming, ambitious peoples. But it seems close to certain that, having accounted for well over half of global economic output in the last 50 years, the areas that constituted the developed world in the 20th century (North America, Europe, and Japan) will soon be contributing a third or less. Already, more than half of global economic growth is occurring in emerging markets.

In its speed and impact, the surging growth of the

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Shopping around: On a visit with his wife last year, China's President Hu Jintao spoke of forging a new partnership with India.

world's two most populous countries is so powerful that it will be a rather odd historian who does not describe the period of the last two decades as the Age of Globalization. Chinese manufacturing and Indian software, footloose money and soaring stock markets, the separate revolutions of the Internet and the mobile phone, have combined to transform not simply the way we live and make our various livings, but also the pecking order of global wealth. It is now a commonplace to marvel at the $1.33 trillion foreign-exchange reserves China has amassed, which are growing at a rate of $50 billion a month. That is almost small change compared to the $4.1 trillion that the Arab oil exporters have accumulated in their own sovereign investment funds and financial holdings overseas, according to an estimate released by Hedge Fund Research this past May.

Sums such as these, along with the economic forces propelling China and India out of mass poverty and toward the hope of prosperity, suggest, however, that simply to call the last few years the Age of Globalization is not entirely satisfactory. We are also witnessing the transfer of economic power.

When we consider the history of the globalization process, it appears that it has gone through at least two phases since its origins more than a century ago. Some historians argue that the true first phase occurred in the 19th and early 20th centuries, ending with World War I. Such historians point to the massive waves of migration, with Europeans moving by the tens of millions to the Americas and Australia, and to the fact that, by 1914, Britain was routinely exporting capital equivalent to nine percent of its gross domestic product (GDP) and amassing overseas holdings worth 140 percent of its own annual economic output. Above all, these historians point to the growth in world trade, as cheap food from the Americas and the Ukraine came to a Western Europe that was busily exporting manufactured goods, and suggest that trade amounted to as much as 10 percent of

Here come the cars: Chinese automaker Chery is partnering with Daimler Chrysler to build the first Chinese cars for U.S. markets.

global GDP. That period might well be called Globalization 1.0. It came to a crashing halt after the 1914–18 war, when financially hobbled Britain, the country that had invented and largely financed Globalization 1.0, proved incapable of bearing the burden of managing the system, and no other nation could or would fill the gap.

The long hiatus in globalization lasted until 1944, when the victorious British and American allies, represented by John Maynard Keynes and Harry Dexter White, respectively, planned a new postwar world economy. During three weeks in the New Hampshire mountains at Bretton Woods that July, Keynes and White dreamed up Globalization 2.0, the institutions that would revive, manage, and foster world trade. They devised and planned mechanisms to fund the crucial institutions that created the structures through which globalization revived and flourished, beginning with the World Bank and International Monetary Fund (IMF). Others, such as the International Organization for Standardization and the Organization for Economic Cooperation and Development, would emerge later. Most important of all was the GATT, the General Agreement on Tariffs and Trade, which was the forerunner of today's World Trade Organization (WTO) and which steadily dismantled the tariffs and other obstacles to world trade that had made the Great Depression of the 1930s so much worse than it might have been.

With the leadership and investment of the United States, this postwar period saw the recovery of Western Europe through the Marshall Plan. A similar magic was worked in Japan through the funding that made that country the industrial base for the Korean War during the early 1950s. It is not widely known, but through the Pentagon's Special Procurements budget American taxpayers of the immediate postwar period financed the roads, ports, railroads, shipbuilding yards, and even the Toyota assembly lines that fueled Japan's reconstruction.

Globalization 2.0 might have spread more widely but for the Soviet Union's failure to ratify the IMF's Articles of Agreement. And when the Soviet Union and its client states in Eastern Europe were invited to join and share in the benefits of the Marshall Plan in return for an embrace of an "open door" for trade, the Czechs initially expressed interest, until reined in by Moscow. Soviet foreign minister Vyacheslav Molotov spoke for many later critics of globalization when he justified the rejection of the offer:

> We would probably live to see the day when in your own country, on switching on the radio, you would be hearing not so much your own language as one American gramophone record after another. . . . On going to the cinema, you would be seeing American films sold for foreign consumption. . . . Is it not clear that such unrestricted applications of the principles of 'equal opportunity' would in practice mean the veritable economic enslavement of the small states and their subjugation to the rule and arbitrary will of strong and enriched foreign firms, banks, and industrial corporations? Was this what we fought for when we battled the fascist invaders?

Molotov's rejection of the Marshall Plan may have been the single decision that doomed the Soviet Union to defeat in the Cold War. While the West boomed on the revival of world trade, it was able to afford both guns and butter while the Soviet Union could not. The growth of world trade has been the handmaiden of world economic growth. In 1950, the world's total GDP had a value of just over $1 trillion, and world trade amounted to $130 billion, or about 13 percent of output. By 1970, global GDP had surpassed the $3 trillion level and world trade was at $650 billion, around 20 percent of output. By 1990, the value of world output was more than $20 trillion, and that of world trade $7 trillion, or 35 percent of output. Last year, with global output near $48 trillion, world trade reached $24 trillion, or 50 percent of output.

In building the West as an economic and trading bloc (and a military alliance) during the Cold War, the United States and its partners dominated the finances, the technology, the trade, and the media of this burgeoning global prosperity, with its mass education, its mass middle class, its mass consumption. And thanks to the baby boom and modern medicine, the West was falling only slightly behind in demographic terms.

But now all that has changed. The West no longer leads the world in capital accumulation and as a result no longer dominates global investment and finance. With its space program, its proven ability to shoot down satellites, and its new JIN-class nuclear-powered ballistic missile submarines, China is already a serious technological contender. The ability of Indian corporations such as Tata Steel and Mittal Steel to absorb Europe's two great steel combines, Corus and Arcelor, along with the striking successes of Indian firms in software, demonstrates that country's commercial and technological prowess.

There are other telling signs of the tectonic shifts now taking place in the global balance of economic power. The West is not only losing its traditional dominance of its own internal markets; it is within sight of the day when China and India will possess the two largest consumer markets in the world. Having accounted for nearly a quarter of the world's population in 1950, the West now accounts for barely 15 percent, and declining birthrates suggest that this share will shrink further. Fewer people of working age mean fewer producers and fewer consumers. Thanks to al-Jazeera and al-Arabiya and China's English-language news channel CCTV, and to the rapid spread of the Internet in India and China, plus the growth of India's Bollywood, Nigeria's Nollywood, and the soap opera powerhouses of Mexico and Brazil, the West no longer dominates the world's media.

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This is the new era, and we might as well call it Globalization 3.0. It is the time when the West can no longer set the rules for world trade, since each of the 151 member states has an equal vote in the WTO. Indeed, if we can identify a single moment when the Western-dominated Globalization 2.0 gave way to Globalization 3.0, it may have been when China acceded to WTO membership on December 11, 2001. A number of disparate events that year hinted at the scale of change that was gathering momentum. A symbolic role was played by the terrorist attacks of September 11, which overnight transformed the United States from a status quo power fundamentally content with the world into a nation whose government was determined to change the world, from invading Afghanistan and Iraq to promoting democracy throughout the Middle East. But the traditional solidarity of the West under U.S. leadership had begun to erode long before 9/11, over policy disputes on issues as varied as the Kyoto Protocol on Climate Change, the Comprehensive Nuclear Test Ban Treaty, and the International Criminal Court. With the European Union enlarging to 27 members and its new euro currency challenging the dollar's traditional dominance, European leaders felt less dependent on U.S. support than they had when the Soviet Union's Red Army was poised at their borders.

The hobnobbing may have been a bit stiff when the prime ministers of India, Malaysia, Singapore, and Australia got together at this past January's East Asia Summit, but theirs is one of several new international institutions that are emerging as significant counterweights to Western-dominated organizations.

Whatever the triggers for the shift from globalization's second to its third stage, one critical development has been the new status of the United States as the world's leading debtor nation. The United States finds it increasingly difficult to impose its political will on those countries on whom it now depends for savings and investments. The U.S. Commerce Department reported that the current-account deficit for 2006 was a record $812 billion, a sum nearly equal to the GDP of Mexico, the 14th largest economy in the world. This money must be borrowed. Harvard economist Kenneth S. Rogoff, who is also a former IMF chief economist, notes that "U.S. borrowing now soaks up more than two-thirds of the combined excess savings of all the surplus countries in the world, including China, Japan, Germany, and the OPEC states."

Traditional Western-dominated international financial institutions such as the World Bank and IMF find it increasingly difficult to persuade countries, even those in deep crisis, to accept the hard medicine of these institutions' orthodox economic policies. Such countries now have other remedies. The financial markets have proved remarkably forgiving of defaults on sovereign debt, such as Argentina's decision in 2005 to repay only a third of its defaulted debt, in a controversial restructuring. This has encouraged some remarkable followers of the Argentine lesson. Ricardo Patino, who was briefly Ecuador's finance minister earlier this year, called in Argentine consultants for advice on debt default strategies, then declared that they had told him to postpone any such move, at least until he had borrowed a great deal more money. But such new attitudes did not stop the financial markets from pumping more than $1 trillion in private capital into emerging markets during the past two years, according to the Institute of International Finance.

This weakening of the authority of the Western-backed international financial institutions has been accompanied by two parallel developments. The first is the emergence of alternative sources of financing, including non-Western institutions. The second is the birth of what may be the first serious ideological rivalry since the end of the Cold War.

Emerging countries are no longer financially dependent on the World Bank and the IMF. For instance, China, which has become one of sub-Saharan Africa's biggest customers, had invested $12 billion in the continent even before this year's annual meeting of the African Development Bank was held in Shanghai. China's Export-Import Bank then promised another $20 billion over the next three years in loans, on top of China's new $5 billion development fund for Africa.

In November 2004, China's president, Hu Jintao, pledged investments of $100 billion in Latin America over the next 10 years in the course of a long tour of the region. China's two major oil firms, the China National Petroleum Corporation and the China Petroleum & Chemical Corporation (Sinopec), had hitherto led the country's investment in Latin America, with purchases of oil interests in Ecuador, Colombia, Venezuela, and Bolivia, and partnerships with Brazil's national oil corporation. (Both Chinese oil firms are majority owned by the state.) These developments should be kept in perspective: Venezuela accounts for only about five percent of China's oil imports, far less than China's main suppliers, Angola, Saudi Arabia, and Iran.

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Beyond providing its own money, the non-Western world is now developing its own international institutions. Some, such as ASEAN (the Association of Southeast Asian Nations), Latin America's Mercosur, and the Economic Cooperation Organization, founded by Iran, Pakistan, and Turkey in 1985, have been in business for decades. Others, such as the African Union, the East Asia Summit, and the Shanghai Cooperation Organization (SCO), are relatively new. But these institutions are becoming important.

The SCO, for example, brings together China, Russia, and several of the former Soviet republics of Central Asia. Iran, India, Pakistan, and Mongolia have observer status. One of the organization's first objectives (not wholly met), to remove foreign bases from member states' territory, was clearly aimed at the U.S. military bases established in Central Asia since the Afghan war began in 2001. The member states have agreed to build road and rail links across the region, including energy pipelines, a north-south road, and an energy grid linking Russia and South Asia via Iran. Top ministers and officials of the SCO countries meet regularly, and the organization maintains a secretariat in Beijing. Trade among the members is on track to quadruple between 2002 and 2010, reaching $80 billion.

But not all is clear sailing. Even though the SCO members have a common interest in discouraging those Western nongovernmental organizations whose pro-democracy activities helped foment the Rose Revolution in Georgia and the Orange Revolution in Ukraine, there are tensions between China, with its primarily economic vision for the SCO, and Russia, whose security interests lead it to view the organization as a means to maintain its regional influence.

The East Asia Summit, an annual pan-Asia forum launched in Kuala Lumpur in December 2005, also illustrates how the new regional institutions can generate fresh geopolitical tensions. First proposed by then–prime minister Mahathir Mohamad of Malaysia in the early 1990s, the project was blocked by the United States as exclusionary. When it finally got under way, the summit emerged from ASEAN. It included ASEAN's 10 members and, because of East Asia's growing economic links with them, China, Japan, and South Korea. It became known as ASEAN Plus Three, with the purpose of addressing regional issues ranging from trade to avian flu. Japan and some ASEAN members lobbied hard for India, Australia, and New Zealand to be included in the summit process, but as the inaugural meeting opened, China strove to formally relegate the three newcomers to a peripheral status. Japan and India, both hoping for a counterbalance to China's influence, held out for full inclusion. The final compromise turned the summit into an adjunct of ASEAN, with meetings held immediately before the annual ASEAN gathering. Whether the United States will be able to join the summit process, as Japan has proposed, and whether the summit will accept the U.S. proposal for an Asia-Pacific Free Trade Area, is for the moment unclear. Beijing seems to prefer to keep the East Asia Summit an essentially Asian institution, as part of its long-term strategy of reducing the United States' traditional role as the predominant Asian power.

Beyond its obvious economic and geopolitical dimensions, there is a more profound dynamic at work in the coming of Globalization 3.0 that seems to contain the prospect of new rivalry between ideologies. The erosion of Western power has been accompanied by the erosion of the authority of the grand institutions of Globalization 2.0 which sustained that power by enforcing the implicit rules of Western economic orthodoxy. In the years after the Cold War, those rules were made explicit in the form of the "Washington Consensus," a term coined in 1989 by John Williamson of the Peterson Institute for International Economics in Washington, D.C. As originally formulated, it stated the almost obvious: that the IMF, the World Bank, and the U.S. Treasury broadly agreed on the policies required to help Latin America out of the debt crisis of the 1980s. These policies included fiscal discipline and cuts in budget deficits; tax reform; market-determined interest rates; competitive exchange rates; liberalization of trade and inward investment; privatization of state-owned enterprises; deregulation; secure property rights; and the redirection of public spending away from subsidies and into more useful areas such as education, primary health care, and infrastructure.

The Washington Consensus became the wider policy consensus of much of the West, and with the end of the Cold War it was popularized as the secret of growth through liberal capitalism. Moreover, in that heady period when Francis Fukuyama was claiming that the triumph of liberal democracy heralded "the end of history," the economic prescriptions were conflated with a political spin, so that capitalism and democracy were said to go hand in hand. This was not an outlandish proposition. Globalization 2.0 had seen West Germany and Japan, two martial nations accustomed to authoritarian rule, transformed into sleekly prosperous and stable democracies. South Korea and Taiwan, which had been authoritarian states in the early years of Globalization 2.0, had become recognizable free-market democracies by the 1990s. It seemed, in America's unipolar moment, that the philosopher's stone had been found. Prosperity and democracy for all seemed to be just a Washington Consensus away, and the essence of the new formula was freedom: free markets and free trade, free press and free institutions.

Despite setbacks to this grand design in Russia, Africa, and Latin America, and despite the Asian currency crisis of 1997, which cast doubt on the wisdom of unfettered and often speculative capital movements, the Washington Consensus became something close to a political creed. Its influence can be clearly and tragically discerned in the policies inflicted on Iraq after the fall of Saddam Hussein in 2003. By then, for many in the emerging markets and the developing world, and among many Western liberal critics, the Washington Consensus had become notorious as a way for Western multinationals to buy and bully their way into poor countries, to impose Western rules and values, and to conduct a form of soft imperialism, disguised as the distilled and disinterested wisdom of the West. In his address to the United Nations General Assembly in September 2006, Venezuelan president Hugo Chávez put the case most pungently when he denounced President George W. Bush as "the devil" who had come to the UN to "share his nostrums, to try to preserve the current pattern of domination, exploitation, and pillage of the peoples of the world."

There is now, in the new era of Globalization 3.0, an alternative to the Washington Consensus of free markets and free institutions. It has been described as the Beijing model of state ownership, state-led industrial strategy, currency controls, and authoritarian politics. It is a model that includes political prisoners, press and Internet controls, and restrictions on religious freedom, yet China has managed to avoid much of the kind of opprobrium that damaged the image of the Soviet Union. The Beijing model's attraction lies in its crude message that countries can prosper and grow without any both-

Even Hollywood's global power is under challenge. One rising competitor is "Nollywood," which churns out Nigerian-made movies that take up distinctively African themes and issues. Filmed with cheap video cameras and sold for a few dollars as DVDs, Nollywood movies are gaining popularity throughout Africa.

ersome democratic baggage such as a free press or free elections, and it includes breathtaking levels of corruption and a docile judicial system. China invests in Sudan while turning a blind eye to the genocide in Darfur—and develops economic relationships with many other unsavory regimes—under the argument that it has no right to interfere in another sovereign country's internal affairs. The model's seductive appeal to a certain kind of political elite in the developing world needs little elaboration, and China's dramatic record of economic growth is its own best advertisement.

Influenced by the Washington Consensus, successive U.S. presidents since George Bush the elder have maintained that economic growth in China will lead eventually to political freedom, and that a new middle class will start to demand a say in national affairs. Its members will want to protect their savings against rapacious governments, dishonest legal systems, corrupt banks, and manipulated markets, and they will demand a free press to inform them of official misdeeds. During his 1998 visit to China, President Bill Clinton expressed the conviction that economic and social change would lead to democracy in China. "Political freedom, respect for human rights, and support for representative government are both morally right and ultimately the best guarantor of the stability in the world of the 21st century," he said. "Nations will only enjoy true and lasting prosperity when governments are open, honest, and fair in their practices, and when they regulate and supervise financial markets rather than direct them."

It remains to be seen whether that presidential confidence, articulated at the high tide of Globalization 2.0, will hold good as momentum builds toward the new balance of power represented by Globalization 3.0. It is important to remember that China is not alone in propelling that surge. India, the world's largest democracy, with a free press and an independent if laboriously slow judiciary, offers a different model again. Nor should any sober commentator underestimate the capacity of the U.S. economy to reinvent itself and change everything.

In 1961, brimming with pride and confidence as the Soviet Union put the first man into space, Nikita Khrushchev pledged to the Twenty-Second Communist Party Congress that within 20 years the Soviet Union would outproduce America in coal, steel, cement, and fertilizer, the sinews of a modern industrial economy. He turned out to be right. In 1981, the Soviet Union produced more of each of these items than the Americans, but by then the United States was living in a different kind of economy altogether, in which plastics, silicon, and services had fundamentally changed the rules of economic growth. In the 1990s, with a productivity surge riding on the back of the personal computer revolution, the United States did it again. In the coming revolutions of biotechnology, nanotechnology, artificial intelligence, and mechanisms to tackle climate change, America and the old West have an opportunity to redefine the terms of future trade and development.

Yet the United States and the West as a whole appear to be losing that self-confidence and belief in growth and never-ending progress that sustained them in the golden years. It was perhaps inevitable that in the shift from a Western-dominated Globalization 2.0 to the more anarchic version 3.0, many in the West would question whether globalization was still working to their benefit. One sign of this is the lack of agreement in the Doha round of WTO negotiations on the rules of world trade. Another is the growth of protectionist sentiment in Europe and the United States, combined with political and public opposition to immigration and to the acquisition of European and American companies by buyers from developing countries. The U.S. Congress blocked the $18.5 billion purchase of Unocal by the China National Offshore Oil Corporation, which is 70 percent state owned, and it pushed Dubai Ports World to give up ownership of six U.S. ports it had obtained when it bought Britain's P&O (the Peninsular and Oriental Steam Navigation Company).

Former U.S. Treasury secretary Lawrence Summers has warned in the *Financial Times* that anti-globalization sentiment is increasing because of "a growing recognition that the vast global middle is not sharing the benefits of the current period of economic growth—and that its share of the pie may even be shrinking." Harvard professor of government Jeffrey Frieden has pointed out that America's public and its political elites were prepared after 1945 to endorse a free-trade system that would benefit other countries (and breed competitors) as part of the grand strategy of the Cold War. But the national security argument is no longer self-evident, and in the case of China, which may be a strategic as well as economic rival, the logic of national security may even argue against further globalization. Concern about climate change and the worry that economic growth has harmful environmental consequences is another weight in the balance against continued Western support for free trade. Unless it can swiftly become carbon light where Globalization 2.0 was carbon heavy, Globalization 3.0 may thus be sowing the seeds of its own collapse.

But even if 3.0 collapses, some of its characteristics are likely to endure. National markets are being transcended, as corporations start to focus on markets that are regional or global, transnational and cultural, such as Islamic consumers or the Chinese and Indian diasporas, or the global rich, with their credit cards and business- and first-class tickets and their taste for globally marketed luxury goods. The real question is whether the changes in the nature of globalization will continue to allow the global poor to clamber out of their despair and into opportunity.

The way in which Globalization 3.0 develops will engage much of the attention of a new generation of leaders who are coming onto the world stage, from France's Nicolas Sarkozy and Britain's Gordon Brown to the eventual successors of presidents George W. Bush and Vladimir Putin. Yet their impact, like that of China's Hu Jintao and India's Manmohan Singh, will be limited because deeper forces of public opinion and sentiment are at work. Psychologically, while India and China have cultivated a mindset for growth, many in the West now prefer to think in terms of sustainability, and they panic at the thought of the stresses that Chinese and Indian economic expansion will exert on the biosphere. Western societies can no longer raise their children secure in the knowledge that they will have a better future than their parents. That dream is now the prerogative and the defining feature of those rising peoples who have been empowered and enriched by the globalization that the West built, but which is now coming under new management. Compared to all that, the Cold War and America's subsequent unipolar moment were but a sideshow. ■