do not guarantee that the United States will remain on top economically; they stress that the global system America helped to create triumphs in the two World Wars and destroyed decades of economic progress.

In this timely book, Marber dismantles globalization and outlines new international megatrends and interconnections. With bold suggestions on how America can reassert its historic leadership in the new global arena, Seeing the Elephant will show readers how the U.S. still remains the planet’s best chance at building enduring peace and prosperity.

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PETER MARBER of HSBC and Columbia University, Author of From Third World to World Class and Money Changes Everything
Seeing the Elephant
Seeing the Elephant

Understanding Globalization from Trunk to Tail

Peter Marber
In memory of Hugh Kenner, who always saw the elephant.
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Multidisciplinary studies like this book require an immense amount of support from friends and acquaintances, and this one is no exception.

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Introduction

A nyone writing today about globalization—the complicated web of life through trade, investment, technology, ideas, and migration—needs to thank Tom Friedman and Al Gore. Whether you agree with their alarmist messages, *The World Is Flat* and *An Inconvenient Truth* helped educate and inform while elevating the debate above the whiny emotional anti-everything protests of the late 1990s.

Friedman and Gore’s best sellers, along with several other books by commendable authors, discuss some of the most important facets of globalization.\(^1\) However, like the blind men in the parable of the elephant who only feel and describe a tusk, ear, or trunk but don’t comprehend the whole animal, most of these writers tend to comment on a feature or two of globalization; few attempt to describe all the phenomena and understand their holistic connections. So, while *The World Is Flat* (and Friedman’s other books), vividly dramatizes international economic competition and *An Inconvenient Truth* shocks us with the perils of accelerated environmental degradation, these topics need to be considered with the many other interlocking features of a twenty-first century planet in which more than 6.7 billion people are working and consuming at an alarming rate. Only by stepping back from
the fray can we begin to see the interlocking, overlapping, and colliding aspects of globalization as a whole and begin to formulate national and international policies that take account of these rapid changes and interconnections.

That’s what this book is about. It is nearly impossible to talk about basic concerns like mortgages, retirement plans, and gas prices, for example, without examining global intersections in trade, finance, energy, immigration, the environment and defense. But we, as U.S. citizens, seem blind to how twenty-first century civilization is connecting more nations and peoples than ever before. Our elected officials, too, are fumbling with major policy decisions amid the world’s changing power structure. Without recognizing, admitting, and understanding these connections, we can’t even begin to discuss how the United States and other countries can craft and harness effective policies amid this breathtaking progress.

A Different Lens

It is somewhat understandable that we Americans can’t get our heads into the chaos of globalization. For most of the twentieth century, we lived in an easy-to-understand world. The U.S. economy was the largest and most competitive but fairly insular and domestic; trade was less than 10 percent of our total economic activity. Our comparative advantages in technology—coupled with a strong dollar and cheap oil—helped propel a living standard that surpassed much of the world. After World War II, we dominated the global scene and lived large—literally. Automobiles grew longer and heavier, people grew taller and fatter, homes grew bigger, and the nation’s political and economic influence grew ever grander. Because of the vast U.S. marketplace, many outward looking countries naturally wanted to do business with us and emulate our rich lifestyle—wearing designer and logo-bearing clothes, driving big flashy cars, listening to popular music, watching TV and movies, and eating too much. We were seen as leaders of the free capitalist world, a bit gauche but with our heads and hearts essentially in the right places.
There was little competition to challenge our position as the world’s most powerful nation through most of the twentieth century. Europe and Japan were rebuilding; the former Soviet Union, Communist China, postcolonial Africa, and other Socialist countries in Asia and Latin America traded very little, and compared to the United States their domestic markets were tiny. The United States was, indeed, number one with no close second for decades. In foreign policy, we maintained supremacy from 1945 through the 1990s by offering select countries protection under our NATO/nuclear umbrellas against the purported Soviet threat. We built military bases abroad and planted troops and weapons in many countries. Washington maintained a simple but effective global strategy amid a simple bipolar world: Protect those who traded with us. But the post-Cold War era requires a wider, more sophisticated perspective.

The United States is still the single most important economy today, but it competes with many more countries in many more industries than just a generation ago. Global trade—hundreds of times greater today than in the 1950s—has become a mind-boggling human activity. Millions of tons of natural resources are hyperefficiently extracted, mined, and moved in and out of dozens of countries; millions of factories worldwide manufacture billions of high- and low-tech items; dense transportation networks coordinate the global distribution of resources and goods by land, air, and sea to far-flung markets previously familiar to us only from spices and old poems. And this entire system (if one could even call freewheeling, frenetic, global trade a “system”) is supported by a wide range of financial players and marketplaces connecting savers, investors, manufacturers, workers, and consumers. Trillions in currencies circle the world electronically 24/7. Revved up trade has reduced poverty worldwide with hundreds of millions of people living longer and better, and with more hope than ever before.

If the world is going to continue to grow sustainably and pull the remaining poor out of deprivation, we must begin to recognize the complex interactions and interconnections that constitute the blurring new millennium—one in which countries are clearly separate yet inexorably bound in a global system at the same time. And with this flurry of cross-border activity comes new risks and threats—such as terrorism, diverging demographics, resource shortages, financial imbalances,
and environmental stress—that we have yet to adequately assess and safeguard against. Just consider how the tremors that started to shake the U.S. banking system in 2007 have spread through financial markets and economies worldwide.

In fact, the twenty-first century demands a very different lens for viewing the world. To survive and thrive, we will need to change the fundamental thinking behind our thinking. For decades, the United States and some of its close allies have used linear, compartmentalized approaches to solve problems—a “Micro Domestic” viewpoint—in which policies are fragmented and considered separately. As a result, U.S. policies have been geared to manipulate the levers of power under the belief that we could—and perhaps did—control global change. But the world is not compartmentalized as it was in the postwar period; it is far more connected than many would like to believe. To move forward, to continue to prosper, we will need a new approach: a “Macro Quantum” paradigm.

In contrast to the old ways of postwar thinking, a Macro Quantum perspective understands that power is fluid, not fixed; that future events are not 100 percent predictable; and that control, in the classic geopolitical sense, is somewhat illusory. In this shift, the United States’ unilateral worldview should evolve into one of multiple possibilities. Our absolute perspective should recognize and appreciate contextualism, simplicity should be replaced by complexity, certainty by ambiguity, and uniformity by pluralism. Such a holistic perspective emphasizes organic, free-flowing interaction and codetermination versus rigid beliefs in compartmentalized segmentation and self-determination. In this Macro Quantum world, we must learn to go with the flow of powerful forces beyond our control; indeed, attempts at control—as we witnessed in Iraq—can be counterproductive, and even exacerbate problems.

Yes, this is a dizzying concept. And the more complex life becomes, the more people want simple answers. But there are no simple answers anymore. The few highly active, independent, dominant economies of the mid-twentieth century now must negotiate an intricate, highly interconnected web of trade and investment involving billions of workers and consumers that inherently are affected by increasingly complex and intertwined security, energy, and environmental issues. We live in a time when very small individual changes
in certain aspects of life can have large global consequences in what
Steven Levitt might call a *Freakonomicon* world. While most people want
black-and-white answers, the twenty-first century is a world cast in
varying shades of grey.

Americans face complex threats in the world and new commercial
and financial patterns involving countries with which we have little
experience. Amid these changes, many U.S. government policies during
this millennium have seemed almost naïve. Instead of fostering intelli-
gent discourse and exploring new approaches, for much of this decade
our government—perhaps as a knee-jerk, fearful reaction to 9/11—has
been infected by an unfortunate strain of ignorance, anti-rationalism
and anti-intellectualism. Critics cite the Bush administration’s una-
bashed rejection of hard data and expert opinions on many topics—
from global warming to government spending to the Iraq invasion—as
evidence. Many, including me, believe that traditional policy channels
involving careful analysis and debate have been hijacked in favor of
bold, faith-based, gut-level decisions for most of this decade. Reasoned
public discussions have increasingly given way to a noisy, partisan yell-
pest among politicians and the media. While the Bush administration’s
policies and personalities have certainly hurt the United States in both
international standing and treasure, globalization was set in motion
long before the neoconservatives stormed Washington. Globalization’s
momentum has been building for decades; its exponential pace has
made recent insular, dogmatic politics seem futile. Even the distinction
between foreign and domestic policy has blurred beyond distinction.

Why can’t we grapple with today’s quantum complexities? Americans
have always resisted policy debates, but we seem to distrust them more
than ever at a time when serious discourse is needed the most. Our stu-
dents have lagged in science and math for more than a generation, and
most are fundamentally ignorant of basic civic concepts. The United States
is a country where less than half the population votes, where only one in
six citizens hold valid passports (and only one in three elected officials!),
and two out of three can’t name our three branches of government or
one Supreme Court justice. Amid our national attention deficit disorder,
should it surprise us that we accept the partisan punditry and comedy of
Bill O’Reilly, Lou Dobbs, Bill Maher, and Steve Colbert (as entertaining as
they may be) as a substitute for meaningful policy dialogue?
This is just part of why the 2008 presidential hopefuls ignored ambiguous but pressing questions pertaining to global happenings, instead feeding us partisan proclamations on the financial crisis and Iraq, occasionally peppered with morality crumbs regarding abortion, same sex marriage, stem cell research, religion, gun control, and the death penalty. Amid the 2007–2008 economic slowdown we heard some discussion of the Colombia free trade agreement, largely in protectionist rhetoric. Few candidates spoke on our most urgent issue: the relative decline of the United States and our historic allies amid the rapid economic integration of China, India, and other non-Western countries. As the mortgage problem intensified, presidential candidates still failed to discuss how our economic troubles were international in nature: The United States’ subprime crisis was actually part of a wider global credit meltdown. One can only hope that President Obama will dare to lead the United States—and perhaps the world—in the new global economic reality. This will necessitate dramatic policy changes including overhauling postwar multilateral institutions (the United Nations and the World Bank, among others), and/or creating new ones to coordinate cross-border affairs in a world no longer dominated by the largely white, Christian societies of the West.

**Quantum World, New Players**

Many of the historic advances since World War II have been pushed by the United States in concert with Europe and some other close allies that form what’s known as the Group of Seven (the G7, consisting of the United States, the United Kingdom, France, Italy, Germany, Canada, and Japan). In past decades, these countries have formed the nuclei of several forums that helped codify rules, behavioral standards, and mechanisms for international collective progress and orderly conflict resolution. But today, there are signs of diverging interests and opinions among the G7 that, together with the proliferation of nonstate actors (NSAs) and the rise of powerful emerging market nations, have eroded the G7’s global relevance. In many ways, the G7 countries have lost much of the economic and political clout that allowed them to control the global agenda in the last century, but an appropriate alternative has yet to fill this vacuum.
In the new millennium, many countries once pegged as “developing” nations now wield greater economic and political influence than smaller G7 members. Large nations like Russia and those from Asia (including China, India, South Korea, and Indonesia, among others), Latin America (such as Brazil and Mexico), and Africa (Egypt, Nigeria, and South Africa) have mushrooming middle classes and educated, competitive labor forces that are growing daily. Many formerly poor nations have boosted world output and are active players in financial markets. By managing their economies well, many former debtor nations have now become creditors of the United States and other G7 members that run budget deficits and highly leveraged economies. Over time, emerging countries’ financial positions have solidified and their share of global trade and income has soared.

And while twentieth century crossborder activity was largely the domain of governments, today’s world has a variety of civilian players—what political scientists like to call “nonstate actors”—that are assuming roles formerly reserved for sovereigns. Banks, multinational corporations (MNCs), mutual and hedge funds, journalists, nongovernmental organizations (NGOs), and even terrorist and paramilitary groups now have crossborder capabilities that were unimaginable in the years following World War II. These new players drive the Macro Quantum world by creating jobs and financing governments and investments; they provide educational, medical, and humanitarian services; they inform and shape public opinion; they influence policy decisions at the highest levels of government; and, in some cases, they wage military conflict.

In a world of countries that have been historically disconnected with limited crossborder activity, how do we now approach the chaotic stampede of economic and financial integration? With another one billion people on the planet by 2020, how can we guard against potential resource imbalances, shortages, and environmental suicide? Is it simply the market that will govern cross-border behavior? Will old governing bodies compete with new alternative blocs forming among the economic upstarts? How will we combat terrorism and weapons proliferation? How do we safeguard against financial and economic meltdowns? In short, as globalization storms forward, what new realities must we face in a world where the helm inevitably is shared with countries of which we have little knowledge, experience and—possibly—trust?
These are the questions that President Obama’s administration will need to focus on, and the ones this book will attempt to investigate.

Whatever the answers, they must be rooted in sound public policies formulated in a holistic, noncompartmentalized manner. Since 1987, I’ve traveled to and invested in more than 50 developing countries from Latin America, the Caribbean, Africa, the Middle East, Central Europe, Russia and the former Soviet Union, and Asia. I’ve focused largely on government bonds and currencies, trying to figure out which countries were on successful, prosperous paths, and which weren’t. This has been reinforced by nearly 20 years of research and teaching at Columbia University’s School of International and Public Affairs, a community dedicated to multidisciplinary policy formulation. Professionally, I’ve worn three hats to analyze these trends: the first, a political scientist studying the public policies of countries in various stages of transition; the second, one of an economist trying to understand the long- and short-term economic ramifications of these policies; and the third, the hat of a pragmatic trader formulating active investment bets on which countries were doing better or worse than others.

To understand the long-term connection between sound government policy and economic success, one needs only to look at the Korean peninsula, one of the poorest places on earth just three generations ago. After war split the country in 1953, two very different policy paths were chosen. The North followed a statist-style, centralized economy, while the South focused on education and trade. Today, South Korea’s per capita income is some 16 times that of North Korea’s, which regularly experiences food and energy shortages. Over the last 22 years I’ve seen countries skillfully harmonize domestic policies toward desired future outcomes, as well as others that have fumbled miserably and fallen squarely on their faces.

The combination of Wall Street pragmatism and academic research has taught me to appreciate the kaleidoscope of globalization, in which each new element and each turn creates a unique pattern. And having bet billions of dollars over the last two decades on the outcomes of countries’ policies, I (along with many investors and academic commentators) am worried that our country may be an increasingly bad bet, what market traders call a “short.” Indeed, speculators betting
against the U.S. dollar for much of the millennium have profited nicely. But this tide can easily reverse with fresh policy thinking. That’s what we’ll explore in *Seeing the Elephant*.

In my last two books, I attempted to draw attention to global trends, emphasizing the rise of emerging markets and the cultural divides that exist between these and wealthier nations. I have seen firsthand how the state has retreated from much of its dominance over human interaction in the mid-twentieth century. It’s clear that the marketplace today can do certain things arguably better than governments: create productive jobs, factories, and infrastructure. But markets have weaknesses as well, as the recent credit crisis shows, and in today’s hyperactive, hypercreative financial climate they inevitably suffer from short attention spans. Against the great chaotic rise of the marketplace, government’s role—particularly at the multilateral level—must be revived to focus on longer-term policies that may be unpopular and appear fruitless in the short term. And that brings us back to the United States.

**The Capitalist Peace at Risk**

The United States has long been a champion of the “capitalist peace,” the idea that free trade and unimpeded investments can bind nations together and discourage military conflict. War, with its interruption of business and destruction of life and property, is simply too costly for all involved; that’s one of the great history lessons of the twentieth century. Looking at the dramatic reductions in crossborder warfare in the last few decades, one would think that we have entered such a golden interval, but visible cracks have appeared in this otherwise strong capital peace foundation: the breakdown of international financial markets, the recent collapse of the Doha trade talks, the failure of any true global uptake of the Kyoto environmental protocol, circumvention of and stagnation in the UN Security Council, the demise of the International Court system and protectionist responses to select crossborder acquisitions not to mention consensus failure over the Iraq invasion and its consequences. In total, these problems suggest that global tensions are stewing, and that we are perhaps at a crossroad in history regarding multilateralism and future prosperity.
The quantum future is not set in stone and depends on decisions made today. The United States can ignore globalization, and continue to act as an isolated, narrow-minded bully, trying to mold every country to fit its unilateral worldview. This would be a mistake that would provoke more resentment and risk than we can imagine. Another tack to take would be to subject ourselves passively to the new global trends, understanding fully that the United States—and much of the G7—will float with the market winds that blow the sails of others and push them faster. This is preferable to recent aggressive unilateral behavior, although it leaves us little control over what is to follow the Pax Americana. In such a scenario, we'll certainly remain economically important, but our position might quietly fade as Britain's did in the twentieth century. Finally, perhaps the best way to manage the inevitable change is for the U.S. to orchestrate policies and support institutions that harmonize with the Macro Quantum world, using our waning but still potent influence to evoke better outcomes. Global relations are clearly in a state of flux but could fall into place with properly directed effort. It will not be easy, and it requires a reinvigorated spirit of international cooperation, in contrast to the United States' recent ethos of Micro Domestic control.

Globalization's promise has only been partly realized in the last decade or so, with far greater benefits potentially ahead. However, globalization is not risk-free, and historic trading, finance, and security alliances can flourish indefinitely without acknowledging the inevitable multipolarity. More than ever, the world needs broader forums for managing multidimensional cross-border relations. The one-for-all, all-for-one spirit that bred the United Nations, the World Bank, and the World Trade Organization—the bedrock of greater wealth for more people than ever before—requires renewed commitment to reflect recent history. Without reviving multilateralism the risks of instability, armed conflict, protectionism, and further financial panics, will steadily increase as they did before World War I, with potentially devastating consequences.

The optimistic path in a quantum world will require a holistic policy formulation that accurately gauges the United States' position vis-à-vis its peers. This book’s first chapter takes stock of the dramatic reorientation of world power over the last century, but especially in the
last two decades. It also examines the rise of new nonstate actors in today’s accelerated global convergence.

The subsequent chapters focus on seven key cross-border, interlinking issues that need greater coordination:

1. Trade and finance
2. Energy
3. Security
4. Immigration
5. Health
6. The environment
7. Poverty

None of these areas can be understood in a vacuum; a multidisciplinary perspective must be employed to tame and shape a peaceful and prosperous globalization.

The last chapter focuses on the United States and the great leadership challenge—or opportunity—that now exists. There is little debate that the United States, or at least the *U.S. government*, has lost a certain amount of respect in the international community in the new millennium. It should be clear from the first eight chapters that the United States’ stature has been eroded by growing economic competition, weaker relationships with old and new powers, bull-headed unilateral actions, and a general clumsiness in its approach to managing globalization. Instead of forging strong alliances with rising powers, the United States has been slow to understand a world that is rapidly recalibrating. However, this trend is not irreparable.

The United States must reestablish itself as the foremost supporter of the global system of governance that begat this quantum world. We need to reverse the vicious cycle of chaotic unilateralism that has plagued the new millennium toward the virtuous cycle of collective problem solving that makes all countries better off. To rebuild its leadership position, the United States must underscore the centricity of international protocols, rules, and institutions. President Obama needs to create a climate that encourages other countries to coordinate with the United States and restores trust in the global system and bolsters the capitalist peace.
This will require modernizing multilateral institutions like the United Nations and the World Bank, among others. The United States needs to trumpet the value of multilateralism, the philosophical foundation of our global system. This is the unifying force that can both harness the power of nonstate actors and defend against influences that can destroy such order that has been built since World War II’s end.

The United States will never be able to stop the rise of emerging markets like China, India, and Russia—or any others for that matter—but it certainly can weave them into the evolving tapestry of rules and institutions that have developed in the last 60 years. The strategies I’m proposing do not necessarily ensure that the United States will remain on top economically but rather that our postwar multilateral system triumphs in the end; it should be the only game in town. They also serve to protect against the rise of new powers splitting the world into fierce competing spheres—exactly what happened before World War I. The more that economic, security, energy, health, immigration, and environmental rules are multilateral and all-encompassing, the more the global system retains its coherence. Whether the United States can thrive in this system rests on the policy decisions we make today. The challenge for President Obama will be to not only voice this philosophy, but to demonstrate it with better behavior. The United States must practice what it preaches.

We have an opportunity, but it’s a time-based opportunity. For most of the twentieth century, the United States was globalization’s shepherd, but it fell asleep sometime in the last decade while the flock has grown and strayed. The time to awaken is now. Indeed, the global financial crisis may be the perfect catalyst. Retreating would only squander our last opportunity to forge a global order that serves future U.S. interests. We should be working at this moment to shape the global system so that the institutional legacies of today’s actions put the United States in the best position possible amid an increasingly crowded, more competitive landscape. The world is thirsting today for a revived system of rules and tools for collective action and, with policy shifts we’ll discuss, the United States still remains the best chance at building an enduring capitalist peace.
Chapter 1

Seeing the Elephant in the Twenty-First Century

Progress is impossible without change, and those who cannot change their minds cannot change anything.

—George Bernard Shaw

There is a traditional Hindu fable in which several blind men encounter an elephant for the first time. One man feels the trunk and states the elephant resembles a snake; another touches the tail and is convinced the elephant must be like a rope. A third man grabs an ear and compares the elephant to a fan, while another pats the belly and believes it to be like a wall. The blind men start arguing, each insisting that he alone is right. A man passing by asks what the commotion is all about, and the blind men reply, “We can’t agree on what the elephant is like.” After hearing them all, the bystander calmly explains that each of the men is describing a piece of the animal correctly, but not one perceived the elephant in its entirety. The blind men leave feeling both vindicated and enlightened.

By titling this book *Seeing the Elephant*, I’m hoping to underscore not that conventional views on globalization—our elephant—are
parochial or untrustworthy but rather to emphasize that all reasonable perspectives add value to this important dialogue. Because, when it comes to globalization, perceiving the big picture is just as essential and maybe more important than focusing on one or two areas. The title also refers to the expression “the elephant in the room,” that is, an uncomfortable situation where something major is on everyone’s mind, but no one says or does anything about it. Globalization is enormous and a bit frightening, so many people choose to ignore rather than confront it.

The extraordinary changes of the last century—the ways we work, eat, communicate, stay safe, and entertain ourselves—are multifaceted, yet also form a coherent whole. Today’s elected officials, corporate and financial titans, media commentators, and scholars have taken a magnifying lens to various aspects of the dramatic changes of the past 20 years, providing useful snapshots of information. But we still struggle to see the how the parts are linked together.

The result of these incomplete efforts is a checklist of worries instead of a logical plan for tackling our thoroughly new challenges. When the Twin Towers topple, we fear global terrorism. Al Gore wins an Oscar for *An Inconvenient Truth*, and we fixate on global warming. An Indian customer service representative answers our toll-free call in Bangalore, and we add outsourcing to the worry list. Brazilian supermodel Gisele Bündchen demands to be paid in euros, then a weak dollar grabs the headlines. Gas rises above $4 a gallon, we proclaim an energy crisis. We discover tainted shipments of Chinese pet food, and protectionist tempers flare. We see pictures of George Clooney, Bono, or Angelina Jolie in Africa and add genocide, poverty, and AIDS to our anxieties. Lehman Brothers goes bust, and we worry if our savings accounts are safe.

This patchwork of international problems deserves more than the scattershot attention it now receives. The parts of the elephant—poverty, energy, business, environment, and security—need to be understood as a systematic whole. Americans can no longer avoid this elephant. While globalization is incredibly complex, the meteoric rise of economic powerhouses and nonstate actors demand new forums where tough questions and policy prescriptions can be discussed. But first, let’s look at the path we followed to where we are today.
What’s Old Is New Again

Walking through the thirteenth century, one would be surprised by how similar lifestyles were in Mesoamerica, continental Europe, Africa, and Asia. The key bio-social markers of progress—life expectancy, daily caloric intake, infant mortality rates, literacy—were fairly similar in ancient Mexico City, London, Istanbul, and Beijing. Most people farmed, went to market, lived, and died close to where they were born. Family size was roughly similar in each location (that’s to say large), and no civilization looked much better off than another. Certainly no country back then could be considered rich by today’s rubric. Compared to our modern existence, Hobbes was right: Life was nasty, brutish, and short.

With the advent of the Renaissance, a renewed interest in learning helped Europe break free from the Dark Ages. This led to the watershed late eighteenth-century invention of steam power in Great Britain. Adam Smith’s 1776 Wealth of Nations provided the philosophical framework for organized capitalism, and the Industrial Revolution was born. Machine-driven capacities dwarfed animal and human labor, output soared, and costs declined. Trade accelerated as improved canals and railways and the invention of the internal combustion engine allowed more goods to move farther, faster. Great Britain’s mass education system generated skilled workers capable of operating the new mechanical inventions. After millennia of struggling with scarcity, Homo sapiens had found a formula for producing abundantly while working less.

Great Britain was the first industrial economy, but its lead did not last for long. Goods, ideas, and formal education spread throughout Europe and North America in the late nineteenth and early twentieth centuries leading to the convergence of living standards (or flattening as Tom Friedman might say). By the late 1800s, poor countries around the southern European periphery—the emerging markets of their day—were growing fast, catching up to the rich industrial leaders at the European core.

Asia did not join the action until late in the nineteenth century, when the establishment of the Suez Canal, innovations in marine transport, and penetration of the continent’s massive interior by railroad liberated it from the tyranny of geographic isolation. Thereafter,
the West rapidly engaged Asia in exchange. China opened its ports in 1842 and Thailand in 1855, both with small tariff barriers. India followed Britain’s free trade model in 1846, and Indonesia mimicked Holland in 1870. The most dramatic change, even by the standards of the recent Asian Miracle, occurred in Japan, which went from being an isolated feudal country to an open economy in the mid-1850s. Some 15 years after the arrival of Commodore Perry, Japan’s foreign trade rose from 0 to 7 percent of national income, which itself grew an estimated 50 percent!1

Outside of Japan, Asian nations’ living standards continued to lag. These countries’ huge populations, with education and literacy trailing the West, left them unable to switch from manual labor to machinery-based economies. From the dawn of Industrial Revolution through the late twentieth century, per capita income in India relative to Britain dropped from assumed parity to 15 percent, a fall of 85 percentage points.2 India and China had already lost ground to the U.K., United States, and Russia that they would not start to regain until the 1990s. (See Table 1.1.)

In the late nineteenth century, after a half-century of open trade and relatively peaceful relations throughout the continent, short-sighted politicians across Europe began erecting commercial barriers. A lack of forums for cross-border economic coordination led to distrust and misperception. Trade competitiveness and protectionist policies resulted, countries started forming alliances and blocs and markets ended culminating in military conflict, commercial stagnation, and 30 years of destruction. In World War I, 28 million people were injured

| Table 1.1 Historic Power Shifts, 1820–2050 (Percentage of Global Economic Output) |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| 1820 | 1870 | 1950 | 2000 | 2050 |
| China 33% | China 17.2% | US 27.3% | US 22.2% | China 28.1% |
| India 16% | India 12.2% | USSR 9.6% | China 14.6% | US 21.9% |
| France 5.5% | UK 9.1% | UK 6.7% | Japan 6.6% | India 17.2% |
| Russia 5.4% | US 8.9% | Germany 6.5% | India 5.9% | Japan 4.8% |
| UK 5.2% | Russia 7.6% | China 5.0% | Germany 4.1% | Brazil 4.4% |

Source: OECD, Goldman Sachs.