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Thanks



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**Text of Remarks By Prof Kishore Mahbubani<sup>1</sup>  
at the International Business Council of the World Economic Forum  
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Please let me begin by confessing that I face a serious dilemma in my remarks today. The goal of any speaker is to make his audience feel good at the end of his remarks. However, the world that is coming will be a world that will be outside your comfort zones. If I am going to help you prepare for this, I should make you feel uncomfortable when I have finished. I may succeed in this. Hence, to be true to my Asian roots, I will have to apologise to you in advance if I succeed in making you uncomfortable.

At the same time, let me admit that it will be difficult to speak about global geopolitical and geo-economic developments in twenty minutes. In the next few decades, we are going to witness some of the biggest power shifts we have seen in centuries. Many of these changes will also be amazingly complex. However, the larger backdrop of history against which this complex changes are happening is simple and clear and can be captured with two key points:

First, we will see the end of the era of Western domination of world history (but not the end of the West). This, therefore, means that you can write off the first scenario projected by the video. The days when the US and EU could unilaterally impose sanctions are gone.

Second, we will see the return of Asia. From the year 1 to 1820, China and India consistently had the world's largest economies and by 2050 or earlier, we will return to this 2,000 year norm. The last 200 years of world history have been major historical aberrations. All aberrations come to a natural end. This is why the return of Asia is unstoppable.

So, one practical question that all CEOs should ask at the end of my presentation is this: how Western is the identity of my firm? How identified is my firm with the rise of Asia?

Despite what I said about the first scenario, I am truly glad that we watched the brief video from Mining and Metals Scenarios to 2030. None of us can predict the future. Frankly, to take the most important geopolitical relationship, the US-China relationship, neither Obama nor Hu Jintao can predict what will happen because we are in a very plastic phase of history. All kinds of events may happen (and some I will speak about). Therefore the only way to speak about the future is to think in terms of scenarios – as the video did. And I will speak about three scenarios: (1) the logical scenario (2) the illogical scenario (3) the most likely scenario.

#### The Logical Scenario

Geopolitics can be predictable because sometimes it works very logically. Hence, throughout history, the most important relationship is between the world's greatest power and the world's greatest emerging power because the world's greatest power will always try to prevent the emergence of a competitor. Today, the world's greatest power is USA. The world's greatest emerging power is China.

If world history followed traditional geopolitical logic, we should be seeing a massive geopolitical struggle between USA and China. Most of you in the room remember well the Cold War between USA and Soviet Union when both sides had a comprehensive global strategy to thwart each other. Indeed, the USA, by and large, succeeded in its containment strategy of the Soviet Union. Logically, the USA should be deploying the same kind of containment strategy against China.

However, as we all know, this is not happening. Instead, we are seeing, by and large, a more cooperative than a competitive relationship between USA and China. This goes against all geopolitical logic. So why is it happening. The simple but uncomfortable answer is that this is a result of massive geopolitical incompetence by the US and remarkable geopolitical competence by China. I have to emphasize this point because all American analysts talk about how America is managing the US-China relationship. Actually, America is not managing it. China is managing this relationship.

In my next scenario, the illogical scenario, I will describe at length the geopolitical incompetence of the US. Here, let me describe the geopolitical competence of China. China has put together several elements to manage the US and deflect any containment strategy. Let me mention just a few. First, China has generated deep economic interdependence between China and the US. Remember there was no economic interdependence between USSR and USA. Therefore, while China still relies on American markets (although China will progressively reduce its reliance on US markets), America relies on China to buy US Treasury Bills. With rising American deficits, this reliance on China will continue. Why did Hilary Clinton visit Asia and China instead of Europe on her first overseas trip in February 2009? To ensure that China continued to buy US Treasury Bills at the height of the financial crisis. Secondly, China has launched a preemptive strike against a Soviet-style American containment policy by sharing its prosperity with all of its neighbours. Hence, regional trade is growing for both economic and geopolitical reasons. Thirdly, China has tried to allay American fears by complying with WTO and other rules of the rules-based order that USA and Europe created in 1945. Indeed, China, India and other Asian countries are becoming the biggest beneficiaries of the rules-based order. Hence, unlike what the video scenarios predicted, we are not likely to see the breakdown of the WTO order. This is why I am skeptical of all scenarios which predict resource-based wars. China, India and other emerging power will have to become very stupid to go to the war to acquire resources when they can get them through long-term contracts. Just look at the number of long-term contracts China has signed with Australia. Fourthly, the new assertiveness of both Africa and Latin America is playing to China's advantage as they turn to China to balance traditional European and American domination of their continents. Fifthly, China is careful to avoid the cardinal mistake made by the Soviet Union: to engage in an arms race with USA. It has enough nuclear weapons for Mutual Assured Destruction (MAD). It does not need much more. Sixthly, China is still trying hard to take a low profile and not overly challenge America's domination of leadership of international organizations. I presume you are aware of Deng Xiaoping's famous 28 characters, which prescribed seven guidelines for China to follow: (1) lengjing guancha, observe and analyze developments calmly; (2) chenzhuo yingfu, deal with changes patiently and confidently; (3) wenzhu zhenjiao, secure our own position; (4) taoguang yanghui, conceal our capabilities and avoid the limelight; (5) shanyu shouzhuo, keep a low profile; (6) juebu dangtou, never become a leader; and (7) yousuo zuowei, strive for achievements.

In short, the extraordinarily intelligent geopolitical performance of China has averted the logical scenario. Please remember that the Chinese geopolitical policymakers treat the world as a complex geopolitical chessboard and make the connections between different issues. By contrast, American geopolitical policymakers treat each problem as a silo and fail to make connections. Let me mention another paradox. In the long run, the American political system is functional while China's is not but in the short run, China's political system is functional while America's is not. This too explains the extraordinary geopolitical incompetence of the US which has created the illogical scenario.

### The Illogical Scenario

What is the illogical geopolitical scenario? The illogical scenario is a struggle between the US and the Islamic world. Why is it illogical? There are no fundamental geopolitical contradictions between the US and the Islamic world. Indeed both the Atlantic and Pacific Oceans separate America from the Islamic world. And there are no Islamic states in America. Future historians will someday wonder how America lost an entire decade, from 2001 to 2010. Instead of focusing on China, it got trapped in two unnecessary wars in Iraq and Afghanistan, lost \$3 trillion and will end up with military failures in both countries. One thing that amazes me is that so few Americans are asking the obvious question: Why has America failed in such a catastrophic fashion? And why did America get sucked into unnecessary wars? Amazingly, despite President Obama's two brilliant speeches in Cairo and Istanbul, America's relations with the Islamic world are no better. Why not?

This is where I will have to step into some truly uncomfortable territory. To avoid misunderstanding, let me stress at the very outset that I am a friend of both the US and Israel. I believe that Israel is a global treasure of a country. It should be protected, not destroyed. It is precisely because I am a friend of both Israel and the US, I believe that both are engaged in an amazingly self-destructive strategy in the long run. First, it is a fundamental strategic mistake for Israel to put all its eggs into one basket: to attach its long-term survival to one major power whose power has peaked and will from now on perpetually decline in relative terms. American power reached an artificial high in the 1990's. Even if American power does not decline in absolute terms, it will decline in relative terms. And the power of the Islamic world (which is as unnaturally low as that of China and India) will naturally increase as the Muslim societies will learn from the successes of China and India. Please remember that American failures in Iraq and Afghanistan will boost the morale of Islamic societies. And why will it improve Islamic morale? Because they will say that the era when Christian military boots could march on Islamic soil and succeed is gone. To understand how assertive Islamic societies will become, look at Turkey's behavior in the last two years. This is a leading indicator of the increasing assertiveness of the Islamic world. There is still a small window of opportunity for Israel to achieve a two-state solution. If it misses this moment, things will become harder with each passing decade as American power declines and Islamic power rises in relative terms. I am amazed that so few Israelis recognize that time is no longer on their side. And the daily drop of delegitimization that Israel is suffering will do immense long-term damage to Israel.

Secondly, it is a fundamental strategic error for America to have a completely unbalanced policy on Israel and Palestine. We all know why this happens: the powerful pro-Israeli lobby in Washington D.C. The power of this lobby has generated a remarkable geopolitical distortion. It prevents Israel from making the necessary pragmatic adjustments to its difficult neighbourhood. And it prevents the USA from focusing on its primary geopolitical challenge, namely China.

Now I am going to say something which may come across a politically explosive statement. So please allow me to choose my words carefully and state what I hope is an obvious geopolitical fact: the biggest geopolitical beneficiary of the powerful Israeli lobby is not necessarily Israel (and indeed this lobby may be doing long-term geopolitical damage to Israel) but it may be China. How does China benefit: the more powerful the lobby, the more distorted American policies become in the Islamic world. The more preoccupied America gets with the Islamic world, the more time China gets to emerge quietly. Even the ongoing saga about the Islamic cultural centre in New York will benefit China immensely.

Let me tell you one simple true story to illustrate how brilliantly China benefits from failed American policies in the Islamic world. Three months after invading Iraq, America discovered it could not export Iraqi oil because the UN Security Council sanctions on Iraq had not been lifted. So the US successfully got an UNSC Resolution No 1483 to legitimize the American military presence in Iraq and allow Iraqi oil exports. On the day that this resolution was adopted, I asked a senior American diplomat who helped the US most. He replied unhesitatingly, "China". China got a double benefit by doing this. First, it got immense political goodwill from the Bush Administration, which then squeezed Taiwan in gratitude. Second, by legitimizing the American presence, it ensured that America got sucked deeper into the Iraqi quagmire.

There is one other reason why I tell this story. The most dangerous geopolitical development we could experience in the next year or two is an Israeli or American military strike on Iran. Here you don't have to be a geopolitical genius to guess who will be the biggest geopolitical beneficiary of this strike: China.

I have spent some time explaining this illogical scenario because in many American and European minds, there is a deeply held belief that we are moving into a more dangerous world. And much of the fear comes from a fear of the perceived unpredictable and explosive nature of the so-called 'Islamic' threat. Therefore, let me end with some good news. The Islamic world is not becoming more dangerous. In fact most Muslims want to join the "March to Modernity" that China, India and East Asia have joined. Trust me, if you can get rid of the causes of the illogical scenario I have described, you will suddenly find that the world will look far less dangerous place.

### The Likely Scenario

This is a logical segue into the most likely scenario. The most likely scenario is that the next two decades from 2010 to 2030 are going to be similar to the past two decades of 1990 to 2010. In short, we are likely to have more of the same, with no major geopolitical discontinuities. And why are we likely to have more of the same?

The reason is that the geopolitical driving forces of both the logical and illogical scenarios will continue to play out. China's leaders know that China needs at least another twenty or thirty years before China becomes a full and comprehensive great power. And China still has massive internal problems. Hence, China's geopolitical caution will continue (although China will bare its teeth from time to time to warn that it should not be taken for granted). And, the US will continue to have its geopolitical hands, feet and mouth tied vis-à-vis the Islamic world. The US, unlike China, is incapable of making brilliant geopolitical moves. For example, diplomacy was invented 2,000 years ago to enable you to talk to your enemies. The most brilliant geopolitical move that the US could make is for Obama to go to Teheran, just as Nixon went to Beijing or Sadat went to Jerusalem. But you and I know that this is politically impossible. This one example illustrates how American policies are inflexible and hidebound. By contrast, observe how brilliant China has been on Taiwan.

Let me mention Europe. In theory, the EU should be a geopolitical giant as it has the world's largest economy. In practice, it is a geopolitical dwarf, and its geopolitical performance will become even worse as it gets even more bogged down by its internal difficulties. The standard geopolitical impulse of the EU is to follow the US unthinkingly. Sadly, this will bring geopolitical grief to the EU, especially on its borders with North Africa. The EU is incapable of making any independent moves. Hence, the second largest geopolitical actor in the world, the EU, will remain silent and predictable.

By contrast, as we saw at the final negotiating session of the Copenhagen conferences, the newly emerging powers – like India and Brazil and later maybe South Africa and Turkey – will become more assertive. India's GNP is far smaller than the EU's but its geopolitical influence will increase by leaps and bounds while that of the EU will shrink. However, please remember that all the newly emerging powers are becoming the biggest beneficiaries of the 1945 rules-based order. Hence, they have the greatest vested interest in seeing the continuation of this rules-based order. Indeed, we will have a massive explosion in middle class population. This is why I can say with great confidence that we are likely to have more of the same.

And, now let me add some good news. The best news of the 21<sup>st</sup> century is that major wars are becoming a sunset industry. A three thousand year old industry does not disappear so easily. A combination of forces is leading to its disappearance: Mutual Assured Destruction (MAD); the civilizing example of the European Union (which has taught us that humanity can achieve zero-prospect of war); the ability to acquire natural resources through WTO rules and, equally importantly, the proliferation of American style Schools of Business and Schools of Public Policy. Graduates with MBA or MPA learn that it is stupid to go to war. The costs – as we have just seen in Iraq and Afghanistan – far exceed the benefits. If the world's most powerful country, which spends more on defence than the rest of the world combined cannot win two small wars in Iraq and Afghanistan, which other country can win wars?

But I do not want to conclude by making you believe that all we have to do is to remain complacent. Yes, the geopolitical correlation of forces – for the reasons I have specified – will probably remain stable. However, nothing happens without human intervention. I hope that conferences like this will lead to better geopolitical judgments.

This therefore brings me to the final question I want to leave you with. The biggest beneficiaries of geopolitical stability will obviously be the biggest and most multinational corporations in the world. I hope you will all spend some time reflecting on this obvious question: why are CEO's doing so little to protect their fundamental long-term interests in geopolitical stability. Is it true that you can do nothing? Or can you do something?

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