

The Next Empire

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What can the U.S. do to maintain its competitive position against the E.U. and China? Foreign policy scholar Parag Khanna believes the answer lies right under our noses.

by Edward Baker

Only 30 years old, Parag Khanna has spent more than two years traveling to more than 100 countries, hoping to see firsthand the flash points of geopolitics and globalization. From his observations emerged a book, the recently published *The Second World: Empires and Influence in the New Global Order* (Random House, 2008), a thought-provoking look at the future of global competition. Khanna posits that the struggle for global economic and diplomatic influence over the coming decades will pit three empires — the United States, the European Union, and China — against one another on a battleground that he calls the “Second World.” This group comprises countries in five critical regions — Asia outside China, Central Asia, the Middle East, Eastern Europe, and Latin America — that hope to achieve full industrial development through economic and strategic alliances with one or more of the three major blocs.

In the future envisioned by Khanna, the empires’ power — and, thus, their leverage over Second World nations — will be based not solely on military strength but rather on a broader set of variables: “economic productivity, global market share, technological innovation, natural resource endowments, and population size, as well as intangible factors such as national willpower and diplomatic skill.” According to Khanna, the empires use

their power in very different ways. The U.S. works on a “coalition” model, building alliances on an issue-by-issue basis — counterterrorism, democratization, economic liberalization. The E.U. employs a “consensus” model, slowly working toward agreement on domestic issues, then using its huge market and attractive economic and social policies to draw countries into its orbit. And China uses a “consultative” model, depending on other nations’ belief that doing business with China is advantageous economically and politically, and that it is necessary to put off other, more controversial issues involving labor rights, the environment, and governmental transparency.

For Khanna, a senior research fellow at the Washington, D.C.-based New America Foundation, the variables from which the empires gain power are of great consequence to the U.S. as it adapts its coalition model to meet changing conditions. Can America overcome its tendency to practice self-interested foreign relations and economic policies, a tendency that significantly hampers its ability to make friends overseas? Can the U.S. tie its foreign policy more closely to the needs of domestic corporations operating in a highly competitive global environment? Where, exactly, do America’s global interests lie? Khanna recently sat down with *strategy+business* to discuss his view of the world as

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it applies to the role of U.S. multinationals and the future of American competitiveness.

S+B: One of the ideas we often used to hear concerning globalization is that it helped spread American values, media, and ideas. Is that still a fair description?

KHANNA: Not really. In the 1990s, we believed that all globalization was good because it was American: Hollywood and Coca-Cola and McDonald's. But as it turns out, nothing has brought about the decline of American power faster than globalization. Globalization means you can get what you want from wherever you want. And what I find is not that globalization has advanced American culture, but that it has advanced numerous other cultures. So the idea that globalization is American simply reflects our blindness to what's going on outside our borders — blindness to what Chinese globalization looks like, and what Europeans' and Indians' and everyone else's globalization looks like. It's a cardinal mental error in thinking about the world of the 21st century.

The U.S. now must face a world in which its power is declining, in which it is just one of several competing brands. You can see that in how often America must go it alone, militarily or economically, whether it wants to or not. In that sense, the world is really becoming not anti-American but simply non-American.

S+B: Do you see any tension between the U.S.'s official foreign policy and how American multinationals would prefer to operate in the world?

KHANNA: It's almost an axiom of business that business prefers stability. And to the extent that diplomacy and foreign policy produce and maintain peace and stability,

that is always going to be better for business, except, of course, for the arms trade. I've also never heard anyone deviate from the mantra that a good foreign policy is good for business. Would American businesspeople like to see a different foreign policy? Opinion varies. I do think that they would like to see America's image improve. But there's no consensus on how to go about improving it.

However, a change in foreign policy wouldn't solve a critical problem: American corporations have an overly U.S.-centric view of the world. In some ways they have to, because that's the way the relationship between companies and the U.S. government has worked for so long. They have viewed events in foreign policy terms — home versus abroad. But, clearly, the balance sheets of businesses shows that this is an old way of looking at the world. And American business should be leading the way and helping to change the thinking of American policymakers. That's the initial point in my book. There are no more American interests; there are only global interests. And I think businesses will be the first to see the fallacy in thinking, "If I do this, it's good for America." They will gladly replace that with "It's good for business, and business is global."

S+B: Can the U.S.'s "coalition" model compete against the E.U.'s and China's models?

KHANNA: For the next 20 or 30 years, certainly, but beyond that, I'm not sure. It really depends on a number of huge factors. First of all, America must lose its fear of the world outside its borders, work toward a steadier foreign policy, and stop vacillating between engaging with the world and practicing isolationism. It also has to understand that the Second World now has lots of

options for security, trade, economic, and technological assistance. To remain attractive to the Second World, then, the U.S. must take steps to revive its own economy, rebalance its internal inequities between the rich and the poor, and become more fiscally responsible in order to change its status as a debtor nation.

S+B: How might the U.S. start to compete more successfully?

KHANNA: Each of the three empires I discuss in the book has a natural sphere of geographic influence. The E.U. is extending its influence into Eastern Europe, the Caucasus, and northern Africa, whereas China looks north into Siberia and south toward Southeast Asia, Indonesia, and Malaysia. In the same way, the U.S. needs to concentrate more on its own hemisphere. It should create something like a North American union — not just NAFTA, but something that could actually begin to unite the many potential resources of the Western hemisphere: Canadian energy, American corporations, a Mexican economy that is stable and growing. And the U.S. must also look at raising the competitiveness of all of Latin America, through investment from the government and the private sector, to boost the productivity of countries in the Western hemisphere that are friendly to the U.S. This all adds up to a grand geopolitical vision of a stable, pro-America hemisphere.

The future trajectory of the world could change if American policy in the Western hemisphere changed. If the U.S. straightened things out with Venezuela, if Brazilian oil reserves proved to be as robust as they are predicted to be, and if Canadian oil came onstream efficiently and cost-effectively, the U.S. would actually be sitting pretty. For all of its mistakes in failing to fully

comprehend or take advantage of globalization, the U.S. doesn't need to significantly improve its interests in the rest of the world — if it gets its own hemisphere right. I believe that Latin America will emerge as the solution to the problem of the United States' future competitiveness. The answer doesn't lie in worrying about China or expanding influence in the Middle East or restoring transatlantic ties. The answer lies in our own backyard. Literally. +

Resources

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Parag Khanna, *The Second World: Empires and Influence in the New Global Order* (Random House, 2008): Khanna offers his theory of competition, imperial overstretch, and winning friends while influencing allies in the freshly evolving international landscape. www.amazon.com/dp/1400065089/

Art Kleiner, "Pankaj Ghemawat: The Thought Leader Interview," *s+b*, Spring 2008: Ghemawat presents a somewhat different view than Khanna — that the world isn't so flat and that companies' global strategies should be developed with that in mind. www.strategy-business.com/article/08110

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