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**How to Run the World: Charting a Course to the Next Renaissance**  
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*Featuring:*

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PARAG KHANNA: There are variables, there's equations as you just change one little thing. You change your definition of the West to include, obviously it's staring us in the face. It is our neighbor to the South is it not? Once you start to think of what the West is differently rather than the 20<sup>th</sup> century or 19<sup>th</sup> century or even 18<sup>th</sup> century understanding of the West you have a whole different projection for what the future of the West is going to be.

And I believe that the introduction of the South America factor into our understanding of the strategic West is going to have that kind of massive global impact in terms of changing the entire fate of the world. Because people will stop talking about East replacing the West; China replacing America, Pacific replacing, and realize that in fact, the core of the world, the core of peaceful world system is still this triangular three-pillared West. It's also the East but it's very much still the West and we don't have to fear its demise anytime soon. I think that's going to be, again, a big shift, a big chain reaction, that's going to take place as our psychology shift.

Barack Obama has been a big part of that shift because at the height of our concerns and the headlines being dominated by the events of Japan and Libya. Does anyone know where he went? He went to Brazil, right? He went to Chile. He went to El Salvador. People were saying don't go, don't go, this is crazy. You can't do this right now. What the hell are you doing going to South America right now in the midst of all of this? And he went because it was March 2011 the fortieth anniversary of the Alliance for Progress which was the Kennedy Administrations attempt to take advantage of the Cold War dynamic and strengthen relations with Latin American countries. It led to a tremendous of investment in Latin America, partnerships in Latin America, infrastructure building in Latin America, and really helped to spark the modernization of South America during that time.

So Barack Obama went to South America to more or less herald, although with much less fanfare than has been done with other regions and with other policies a new alliance for progress. That is going to, if you mark these words, force us to rethink the West in the coming years as we start to realize just how stiff the competition is from the East. Because I mentioned energy security; all the oil and gas and energy we will ever need for centuries is right here in our own hemisphere.

We don't need Saudi Arabian oil. It's, in any case, a diminishing component of our overall energy supply and a reindustrialization which is what the Alliance for Progress in its original incarnation was all about. And in fact, there's evidence to suggest that American companies are starting to shy a way a bit from outsourcing to Asia. It's getting very expensive, isn't it? Because of rising wages in China. There's, of course, a huge currency risk associated with it. We don't have control over China's currency policy. There is, of course, a geographic proximity issue. Latin America is, of course, right here. And then we realize that we have a far better political relationship with Latin American countries and can have more mutually beneficial joint ventures with Latin American suppliers and companies rather than simply outsourcing everything to environments where it's very difficult for us to profit from.

So there's many indications pointing to a seismic kind of geo-strategic shift in landscape that we haven't really been paying attention too. And I long argued in my first book even more than in this new one that we need to be doing that.

The reason that I think in that way about regions is because it's long been the missing dimension of how we frame and think about international relations. International relations by definition, right, we just think about states and interstate relations and we look at bi-lateral dynamics between the United States and other countries and that tends to be what we think of as the sum total of international relations.

Then we graft a layer on top of that of global governance, inter-governmental organizations; United Nations and various alliances and so forth. We're missing this component of regionalism and regionalization such as the European Union and NAFTA. The Union of South American Nations as it's not called. ASEAN plus three, the ASEAN Regional Forum, the Gulf Cooperation Council, the GCC countries, even the African Union which has come, quite a ways, I would say in the last ten years.

We don't really talk about that and yet so much of what passes for world political and economic activity isn't so much international relations as it is interregional relations. So when we think about diplomacy we think about these bilateral summits where Hilary Clinton goes or Barack Obama goes. My argument is that the most important summits in the world are the EU/Asian summits, the Latin American/African summits, the Sino-African summits.

When those summits happen they don't make the front page of the New York Times because, surprise, surprise we are not part of them. We weren't invited to them. But those are the ones where plane loads of business people and officials fly across the continents and strike hundreds of billions of dollars of trade agreements and strategic agreements eventually wind up tracking to those emerging economic and trade and finance dynamics between these regions. So interregional relations today is as important, probably more important, than international relations. Because it's hard to take a lot of states in the world all that seriously, isn't it? This is

one of the other big motivations in this book is trying to move beyond the idea of the state which is not to say the state has collapsed. There is a big rhetorical divide there on what is the future of the state? And some people say the state is gone; it's all about cities and companies and non-state actors and markets. Other people say no, the state is strong. Look at the financial crisis. The state is back. It bailed out all of the companies. They were so dependent on it.

I'm halfway in between. To me there's not one kind of state. Right? There are states like the United States and China and Germany that can bail out failing industries and have deep pockets and print lots of money and so forth. That's about three countries out of two hundred.

Then there's states like Yemen and Libya and Congo. How seriously are we supposed to take them? How long are they going to last? And I'll tell you this; when the United Nations was founded sixty some years ago there were less than eighty or so countries in the world. So in the last sixty years we've created how many countries? Over a hundred. There not all Jeffersonian democracies, most of them are not democracies at all. They're certainly not all strong states. Right? Most of them aren't even viable to begin with. And why should we expect that just because they were born sixty years ago, over the last sixty years, they'd then engage in state building, nation building, developing their infrastructure, modernizing; becoming viable members of the international community.

Well they haven't because turn on your television sets and in fact you see dozens of them, one by one, falling apart because that's what they've been doing for the last sixty years; is falling apart. Not growing stronger. They've been falling apart. And I started to study this quite a while ago and one of the main chapters of this book is about what I call post colonial entropy which is just a fancy way of saying that about a hundred countries in the world have been falling apart since the day they were born rather than getting stronger and more viable. Right? And that is exactly what is happening in Egypt and Yemen and in Pakistan and elsewhere.

What do they all have in common? They're not all Arab. They're not all in the Middle East. Some are in Africa. Some are in Asia. They all have in common is that they're post colonial countries that are less than three generations old. Let me tell you what's happened in those three generations because it's the fundamental driver and cause, not driver but cause of the Arab Spring. It's not facebook. It isn't Mohammed Bazzi who self-immolated. It's not wiki leaks. Right? The fundamental cause of the Arab Spring is this post colonial entropy.

So for the last sixty years what all of these countries have in common is that their populations have tripled or quadrupled from twenty million or thirty million in Egypt to eighty some million. Thirty or forty million in Pakistan in 1947 to a hundred and eighty million today. Ethiopia, Eritrea, you name it, quadrupling of populations.

Second. No new real investment in infrastructure. What passes for a good road or railway is what the British left behind in so many of these countries. So no new investment in infrastructure to support four times the population.

Third factor. Corruption, corruption, corruption. Regimes that we backed or the Soviets backed or the Europeans coddled. Games were played for the entire duration of the Cold War. Then even after we abandoned them corruption certainly continued. Corruption didn't stop. So

they've not had good governments since the first governments. That euphoric post colonial moment across Africa and the Middle East that was accompanied by a meaningful nationalism buy leaders who had credibility and support. The Nasser's of the world, such as in Egypt, who were popular. They're gone, right? It's winner take all kind of politics. They're aren't many memorable Mandela's, right, around Africa. Right?

Then within that leadership issue there's the succession crisis that inevitably ensues. Can Mubarak hand off power to his son? Can Gaddafi and his son continue to rule or sons? How about King Mohammed the Sixth of Jordan? How about Bashir Assad of Syria? How about Saad Hariri of Lebanon? How about King Abdullah of Jordan? The last six or seven names I just mentioned are all young men who took power or who are about to assume power in their thirties. They all have at least one Western degree from a European or American university; speak English or French, were all painted as the voice of reform, coddled and supported by us, championed by us. It's very much welcome in Washington, all of them. And yet not one of them is remotely as powerful as their fathers which very much helps to explain what's happened in Egypt and elsewhere.

So, the succession crisis. You've got overpopulation, no good infrastructure. Failure of national identity. Corruption on a massive scale, succession crisis. These are the fundamental causes, the underlying causes of what has become this Arab Spring. But what they really reveal is just how brittle this idea of the state is if all states are created equal because really, they're not. A very few are like us.

So, that's what brings us to the real theoretical background of this book which is what I call systems change. It's not my term. It's a very, sort of, germane political science term. My first book was on structural change. Structural change is when you move from an uni-polar world to a multi-polar world or a multi-polar world to a uni-polar world. When you change the numbers of powers that you have it's called structural change. There's lots and lots of books about that now because most people have come to accept that there are rising powers out there such as the BRIC countries, Brazil, Russia, India, China.

Systems change is very different. Systems change in history is when you change the type of actors that you're dealing with in the first place. When you say it's not all states, that was just the Westphalian period, that was just a few hundred years of history. But there's a whole thousands of years of history before that and we hopefully have thousands of years of history ahead of us. Will it be dominated by these rigid nation states with national borders and sovereign governments? Well, we only have a couple of hundred years of that to rely on. But before that we had a much more complicated overlapping world that was made up of vast empires, territorial empires for sure. Religious entities, the Catholic Church, Islam, whatever the case may be. Cities have been drivers of history for millennia and are becoming ever more so today. Cities are a big part of analysis in this book in terms of units that shape the future. Most of the worlds population is now urban as we know as of a couple of years ago. McKenzie predicts that by the year, we'll we're in PWC's, well PWC predicts it too, let me give some credit to them, predicts that by the year 2030 seventy percent of the world's population is going to live in cities.

So it's an urban world. Cities matter as much or more as many countries. Companies of course, right? When we think of globalization don't we think of multi-national corporations and their

supply chains. A friend of mine likes to speak of the Independent Republic of the Supply Chain in the sense that there are people who identify as much with the company they work for as with the country of which they're a citizen.

And there's a good basis for this. Let me dwell on this for just thirty seconds. When I travel around and speak to business school students or graduate students or whomever around the world most of them, even from the almighty BRIC countries, Brazil, Russia, Asia...are not citizens of the United States or European Union. Therefore they do not have the luxury that all of us have which is that we can more or less go almost anywhere in the world without a visa. They depend on that multi-national supply chain and that I mean PWC or whatever is their employer so they can travel around. I've had Russians tell me over and over again, and Indians, thank God I work for Goldman Sachs or whomever because otherwise I'd never be able to get out of this country 'cause getting a visa would be such a pain. Right? To do it over and over and over it's a big deal for a younger generation.

Are we talking about 0.4 percent or less of the world population? Yes, of course we are. But we're talking about a very important component of leadership who has a very different sense of identity. And, of course, corporate power isn't just about the identity of some personnel. Of course it's about economic resources, control over supply chains and the extent to which governments don't control companies and companies don't control governments as we see from the financial crisis and its aftermath. But there is a codependency for sure. We did learn in the financial crisis that Great Britain, that forty some percent of its economy hinges or is based on not just the City of London, but London City which is the financial district, which is Wall Street.

So, does the government really control those banks? There's a massive amount of co-dependency there between states and firms and this absolutely not a new idea. This is an idea that is not only as old as the, at a minimum as old as the field of national political economy which goes back in some ways to Susan Strange and other scholars of the '60's and '70's who had been talking for a very long time about this idea that there isn't just diplomacy between governments but diplomacy between governments and companies and other actors because who has the money makes the rules to a large extent.

So that's not a new insight but you layer that importance of corporations, importance of cities, also importance of communities. What is the role of social media and technology and changing identities in cloud communities and communities of belief and belonging and causes and so forth. That has to play a role as well, right? People have multiple kinds of affiliations these days. That plus countries, all of those different ways of thinking about it. You need a framework to bring all of that together rather than actually believing, as you can tell I don't think it's worthwhile to think about the next twenty, thirty, forty, fifty years and map onto it the United Nations system and really think that you have it all captured. You really don't. You need to think about systems change which means that you need a whole new diplomatic architecture that isn't just about what happens on 45<sup>th</sup> and 1<sup>st</sup> Avenue or what happens at the State Department or what happens at NATO or, perhaps most dangerous of all. What happens at the G20? Because the G20 is the most recent in a very, very long line of mythical oversimplifications about how to run the world.

And the title of the book is not an attempt to compete with Tom Friedman although that's a maybe a derivative benefit. But anyway it probably lost that race. It's because the books about

diplomacy. All right? This is based actually on my doctoral thesis which was not allowed to have a sexy title like that.

Diplomacy though, and the evolution of diplomatic systems which is the kind of field that I come from teaches us that for centuries, if not millennia, there has been very diverse, diffuse participation in diplomacy. It is very rarely, only in the last couple of hundred years, that have been just governments, right? And so I'm very open to the idea that there is a corporate role in diplomacy, an NGO role in diplomacy, a philanthropic role in diplomacy, a religious role in diplomacy and so on and so on. Because that's, in fact, the historical norm.

So, systems change forces us to think about a new diplomatic model and the G20 which is an informal club, group, twenty governments of very different capacities to contribute anything to world order. Argentina is not exactly my idea of a systemically relevant country anymore, right? Whereas Brazil is becoming one and Saudi Arabia is sort of one and Russia and China and so forth. They're not all created equal. And it can't agree on much of anything let alone run the world. Right?

They can't agree on financial regulation. Do you really think they're going to solve the Iranian nuclear crisis and bring peace to Palestine or solve global climate change? No. The G20 isn't going to do that. So, like I said, it falls in a long line of oversimplification because we've been more or less trained for the last several hundred years and these are ideas that go back to Emmanuel Kant and perpetual peace and universal law. The idea that progress, progress in global governance, progress in how we run the world points towards almost teleological towards a single world government or single set of institutions or one codified international law. Ever more centralized bodies. The United Nations, starting with the Congress of Vienna in the 19<sup>th</sup> century and the League of Nations, the United Nations and now either reforming the UN or UN plus or G20, these types of things. That's wrong. That's at least my thesis. It's totally wrong.

We're not moving in the direction of ever more centralization so that you can point to the G20 or the G8 and say, ah hah, that's how we run the world and say think God we've got this as a bumper sticker and it's all okay. Because we're proven wrong time and time and time again. Right? When George H.W. Bush stood twenty years ago, almost twenty-one years ago at the United Nations General Assembly and said it's a new world order, that famous term, NWO, which you all remember. When he gave that speech there were some implicit assumptions.

It was a uni-polar world, right? We won the Cold War. There was no rival in sight. All of a sudden the world feels pretty multi-polar to me. So we were wrong about that in just a short twenty years. It was a multi-lateral world. The world was governed, at least meant to be, that was also Bush's aspiration, Bush senior was very much a multi-lateralist, right? He gave the speech at the United Nations and he said the UN has been marginalized during the Cold War but it will be back. It will sit in the middle of global governance. Well that hasn't happened either, has it? No. So we were wrong about the uni-polar moment lasting as far as the eye could see we were wrong about it being a multi-lateral world de facto and that everyone accepts the international architecture. Western built post war Breton Woods type of systems that we had built. That proved to be wrong. Instead we see regional systems and China doing its own thing and everyone dealing with everyone much more than we see the UN sitting at the center.

The third assumption built into the New World Order speech, sort of psychology zeitgeist of the time was that it was a state centric world. That you didn't need to think about how we run the world from the perspective other than capital cities of countries. Why would you? Right? I mean no one else needs to be involved in diplomacy, right? States will be able to handle the worlds problems peace and security, climate change, managing the economy, human rights, you name the item on the agenda. If you're going to solve it you're still going to solve it via states.

Well, that's, obviously, totally wrong as well. Because you're not going to solve climate change by having yet another big summit in Bali or Copenhagen or Cancun or Kyoto or pick the next sunny resort of your choice and flying and burning lots of emissions. A hundred and ninety diplomats there to have a big summit and to pass a document that says yes, we will commit to reducing emissions. We won't say when, we won't say how, we won't say anything but we'll have a summit. That doesn't work anymore. We know you're not going to solve climate change unless you have lots of investment in clean technology which requires corporate innovation. Obviously there are incentives involved which marked governments are providing those incentives but it's a public/private process right now not just a governmental process.

We know that you don't spread human rights around the world by renewing our commitment our committing to the universal declaration of human rights of 1946. Yes. A great document of the time that has convinced absolutely zero governments to all of a sudden become better on human rights. Right? It takes so many other things. So many other kinds of pressure and lobbying and things like divestments policies and all of this. That's how you get, that's how you implement human rights. Naming and shaming all kinds of mechanisms, sanctions, not just declaration and treaties, right?

You name the problem out there, right? Counter terrorism. Do you need a counter terrorism body now? Is that going to end terrorism? Probably not. So you name the problem the solution today does not involve just one agency, just one single point of contact, just one inter-governmental body or the United Nations. Or just the United Nations plus its few selected allies who it wants to work on that issue. No. There is that old saying, well I can't remember exactly what it is but for every problem there's a solution that's neat, simple and wrong. That's very much true in the case of global government. So, please be wary of any such bumper sticker solutions to running the world. I believe they're all fraudulent and literally intellectually fraudulent.

I was raised on this. I wrote papers about how let's expand the UN Council and that's going to bring world peace. Well, it's not. You can't convince me, the first op-ed I ever published in the New York times about seven years ago was about UN Security Council expansion. What I proposed still hasn't happened. It's neither here nor there. The point was that you can't make a plausible case that if you expand the security council from fifteen countries to twenty-one countries or twenty-five countries that it's going to be more effective. It'll be more legitimate, it'll be more representative, but does that mean that twenty-five countries will agree on exactly what to do to intervene in Darfur or Libya or East Timor faster than fifteen countries couldn't agree? No. You can't convince me of that. Now, I'm not saying it should stay fifteen I'm not saying it should be reduced to nine. I'm saying we shouldn't be having that debate because it's the wrong debate.

So linking that back to regions and why I think regions are so important and why I think they're such a strong part of this book is that I think that rather than invest one more penny in the UN Environment Program or the United Nations Peacekeeping Forces or centralized institutions. I believe we should be supporting regional ones. An Arab League peacekeeping force and African Union Peacekeeping Force, and other types of regional development and self management mechanisms.

I believe a stable world of better global governance is going to be one in which regions with their own internal cultures and sensitivities and styles manage their own problems as best as possible and we help them. We teach another man to fish. We help others help themselves. We build regional self reliance. We don't have to be global cop. We don't have to intervene everywhere. We don't have to be peacekeepers everywhere. There's lots of Africans who serve in peacekeeping missions under the UN but now also under the African Union. Africans should be policing African problems, shouldn't they? It's a more natural state of affairs, isn't it? Why do I have to convince you that that's more natural than us intervening everywhere and us providing the troops and us providing the leadership and having to convince the Chinese not to veto a resolution that has to do with Kosovo or Darfur. What does China have to do with Kosovo or Darfur? Is that natural? It's not.

It's much more natural I think to think in terms of region so I frame a lot of the arguments here in terms of regions. Now, I don't want to go on and on 'cause I do want to leave time for questions but I want to say a couple of words about this public/private hybrid diplomatic future that is the main normative argument in this book which I defend through lots of anecdotes. Even if the theory feels weak because it's not grounded in international law, it's not rooted in one power like the UN, it's not driven by one organization like the UN or one power like the US. It still seems to be the way in which we are going because of the ways in which when we attempt to solve problems, again like, climate change or poverty.

You know, I mentioned how climate change can't be solved without corporate innovation and clean technology. Now human rights won't work without pressuring companies and supply chains for better labor rights and things like this. Just take poverty. Where are the best ideas in poverty eradication or treatment have come from? Have they come from the World Bank? Have they come from these big summits and meetings? No. If I were to ask you all to write on the back of a piece of paper what's the best idea in poverty alleviation you've heard of in your whole life you'd all write microcredit on that piece of paper, wouldn't you? And we all know where that came from. I didn't come from Washington, right? We know that it's experiments that begin at the local level in Bangladesh and India and other countries and then spread laterally, horizontally, bottom up, sideways, around the world. It wasn't a brilliant strategy paper from the IMF that everyone all of a sudden read and downloaded and, wow, we've just solved all the worlds poverty problems, right? No. We experiment on the local level because of transparency and globalization and media knowledge spreads, best practices spread, and remarkably microcredit is everywhere in every corner of the planet earth including here in the United States.

Now, it's not the only solution, I'm not saying governments don't matter. I'm not saying international organizations don't matter. I've been particularly harsh on parts of the UN today but you will see in this book I champion important segments of the UN. The World Food Program and UNICEF and functional, they're called the functional agencies. They're the ones

that really do something. They're the ones who go out with their lives on the line and raise hundreds of millions of dollars and feed people everyday and take care of refugees. And guess what? The best UN agencies like that aren't just UN agencies that are funded by governments. They're the ones that are best what I call practicing mega diplomacy which is these public/private partnerships 'cause when the World Food Program wants to do something it needs to borrow office space from banks and get trucks from Coca-Cola and FedEx and partner with pharmaceutical companies or food companies to develop high protein foods and things like this to take to deliver to people. It cannot do it alone, it doesn't have the money to do it.

The tight lease that these organizations are unfortunately on forces them in a way to innovate. So they do a lot of good through this kind of partnership model that I strongly advocate here. And we see that model being replicated everywhere so it's principles aren't centralization under UN or US authority. The principle is inclusion of NGO's, of companies, of governments, of inter-governmental bodies in these coalitions of various actors that have the knowledge or the resources or the money to get something done and to create a new model. And the Gates Foundation is obviously a very striking example of all this because what's important about the Gates Foundation is not just that they spent a lot of money, wow, fifty billion dollars in their endowment. They outspend all governments in the field of health and therefore also poverty except a few, such as the United States.

It's not just the money, and by the way they provide forty percent of the operating budget of the World Health Organization. So those of you that think that when you want to solve the global problem go to the global body so if you want to deal in health, well, we go to the WHO. Guess who funds the WHO? It's an NGO. Okay? That's how complicated this mega diplomacy already is. But it's also, the Gates Foundation provides a model 'cause they don't say let's just put lots of money into the a national health system of Botswana, right? One of their most pioneering programs, in Botswana, in fact, was the Africa Comprehensive HIV/AIDS Partnership. And it involves the Gates Foundation, it involves Merck, the pharmaceutical company, it involves UNAIDS, the agency, it involves the Government of Botswana. It involves a whole host of corporate, NGO, government, nongovernmental players to tackle the health problem. So it presents a new model of how you deal with health problems. It's not just the money.

And what mega diplomacy is about, fundamentally, is about a different model of diplomacy, a different model of who you include, different model of how they interact with each other and determine who's legitimate, who's accountable, who's in charge, right? Rather than just assuming that the governments know what they're doing because they very often don't. It's a competition of ideas and that's how we eventually achieve progress through a competition of ideas. Not by just assuming that the status quo of US hegemony or US centrality, let's tinker with that. It's worked, it's a good horse, let's ride that one, right? No, that's not how you achieve progress. You achieve progress through the competition of ideas by which the G20 starts to get more attention and so the UN realizes, hey, wait, we need to get out game on if people are still going to bring their problems here.

Or ASEAN starts to take care of a lot of problems. You don't find much presence of the United Nations in Asia. In fact there's ever more Asian institutions. If you go to South America today Brazil alone outspends the interAmerica Development Bank and the World Bank in development projects and infrastructure finance and other kinds of, in loans to countries around South America. So it's competition. In the world of health it's the Gates Foundation saying we're

going to compete with you and come up with better ways to solve these problems that haven't been solved. Competition of ideas, competitions that haven't been practices. What older principle do we have? That's ultimately through competition that we have a better global governance. I argue it's going to be a very diffuse one. There's going to be lots of players, lots of different models, lots of actors. It sounds so chaotic, it sounds medieval and that's why I talk about the Middle Ages so much in the introduction of this book.

And yet, for me, perhaps paradoxically it's actually very optimistic because I think that we are unleashing a lot of energy. A lot of actors who should have a say, who do have resources, who do have ideas, who haven't gotten to the microphone or been able to have a voice on the worked stage are getting it. I'm very optimistic about that even in times like this. So I think that this mega diplomacy is the model for how we will start to run the world better. In a way it's really happening, right? It's a practice in search of a theory more than it is an idea that has to be defended against a system that very, very clearly does not work. Thanks very much.

[APPLAUSE]

And there's a roving microphone but we can just start right here.

MALE VOICE 1: Can you discuss the competition and rivalry between the have nations, the have-not nations and maintaining job levels in various beacons between these points?

MR. KHANNA: Competition for jobs and economic competitions?

MALE VOICE 1: Yes. We -- countries and the have countries the have not countries.

MR. KHANNA: Well, there's a lot to say on that first of all. We have long treated the world as divided into North and South. Developing, developed, mature, OECD level countries, which there's only thirty-two countries, and the rest basically. World trade has long been dominated by just about ten countries and now all of that is starting to change because of globalization. Because of inter regional trade patterns, for example.

South South trade which used to be a pejorative term, it meant what the poor people do when the trade with other poor people, like, oh, that was only, forty, fifty billion dollars. Just like six years ago when I was writing my first book about this it was about sixty, it was about fifty billion dollars in South South trade.

First of all we don't really use the term anymore it doesn't even make sense. All right? Because countries of the south, like China, are now in the core of the global economy as is Brazil and India too. So we don't use it. But fifty billion dollars, from the perspective, is basically what happens when one planeload of Chinese businessmen got to Africa. That's like one trip in one year, right? Chinese investment in Brazil is like twenty billion something a year. So, it's exploded in other words. So everyone is trading with everyone and one can't really create these simple categories anymore of haves and have-not's and it's become much more complicated now. But it's a very promising picture. So, if you were really going to put one continent or people's in the category of have-not's you'd talk about Africans, right? But Africa, as many of you know, is the place experiencing at least in terms of percentage year on year very, very high growth, right? Double digits in some countries like Angola and others there are entire mutual

funds looking at African equities and things like this. Even American pension funds are looking at Africa in what are called frontier markets and so forth.

Now, ten years ago, five years ago, if we were to ask how do we help Africa, how do we help the poor? The world is so unfair. You would say Europeans and Americans got to cut their foreign subsidies. This is a hideously amoral policy. Got to cut the foreign subsidies otherwise Africans will never be able to export their goods. Well, okay. Five years later today when we talk about this no one really mentions that anymore. Obviously it would be nice if Europeans cut their foreign subsidies or if we did or if the Japanese did but I think that people realize that that's not going to happen. Right? Africans realized it for sure.

At the same time these emerging markets started growing so rapidly that they screeched around the world and started trading with everyone and buying from everyone. So, Africa exports to America and Europe, yes, but it also exports to South American and to Asia and the Middle East and beyond. So the integration of this neglected region into global trade has been the best thing for it because it can diversify its export destinations. It's no longer subject only to policies in Brussels and Washington. And so the best thing that ever happened to the have-nots, to the excluded countries is the rise of those non core emerging markets like China and India and Brazil and so forth because they circumvent those stringent Western rules and policies that have hampered a lot of these poorer countries and they have brought them in.

So I call these emerging markets and so forth the second world and I like to say that the best thing at ever happened to the third world was the rise of the second world because the first world has only done so much for them.

In the back.

MALE VOICE 2: Thanks for a very enlightening talk, just like your book, which I've read. I had a question for you. I don't know if you would agree that you could argue that what has happened in MINA, the Middle East and North Africa and what I call the perpetual Arab Spring as it may not turn to anything other than what it is right now, at least anytime soon. T

That perfect storm has existed in failing and failed states for a long time. I'm sort of wondering what your view is on why you think the Spring, if you will, has not yet sprung in the failed and failing states and whether you think it eventually will?

MR. KHANNA: So you mean the non-Arab countries.

MALE VOICE 2: Exactly.

MR. KHANNA: Right.

MALE VOICE 2: Like the Zimbabwe's and the Pakistans.

MR. KHANNA: Oh, sure. Well, you know, for one thing, I mean, part of the explanation is to answer why it's happened across the Arab world and that's, of course, because of a common language, satellite television, Al-Jazeera, Al Arabia. Those technologies and communications networks and the internal Arab migration which is a not very widely studied phenomenon, and

intra-Arab trade and so forth and the kind of rise of these Arab melting pots like Dubai and Doha and so forth where Arabs get together. The Arab conversation has taken on a new instantaneous life and that started to happen about ten years ago and that made it partially possible. Again, there are many other deeper factors that I talked about earlier for what happened in one country to really affect the others and hence you have this kind of domino effect that people are calling it.

Because the Arab phenomenon is being watched around the world but isn't necessarily impacting India and Russia and Pakistan and Zimbabwe and so forth I'm not surprised that it hasn't all of a sudden let to a global domino of all bad post millennial governments falling. These things take time. Even in the Arab world I wouldn't be as cynical as many people have become. They said, oh, the Arab Spring has turned into winter. I kind of hate these clichés, actually. Because if this were a marathon we're only at mile two, right? That's it. Mile two. Do you really know who's going to win the marathon at mile two? Not in a real marathon. Not in this one either. It's really unfair to say that this is turned into winter. That, ah, like other situations in the past you're going to have this regression towards more repression because Syria and Iran have realized uh-oh. If you loosen up a little bit and give them an inch they're going to take a yard, right?

I think that the genie is actually out of the bottle in a lot of these places because, again, those underlying conditions have not been reversed. Syria has been stagnant. Iran has been stagnant. Just because the leadership holds on a little bit longer than we would like because we're obviously pretty impatient and eager it doesn't mean that they're going to hold on forever. They may fall at mile three or mile four or maybe even mile seventeen but eventually they will and what component of that inevitable change is going to trace itself back to this particular Arab Spring versus those deeper phenomenon is something obviously we can debate and debate and debate. But it will vary case by case because this isn't Eastern Europe. This isn't 1989. It's not one common regime type across thirteen countries and when the Soviet Union collapses they all, sort of, shed that yoke and gradually they all go back to a history of liberal 19<sup>th</sup> century constitutionalism that they at various points in time enjoyed and then gradually become members of the European Union.

It's not there is those conditions. They're not there in the Arab world. In twenty-two Arab countries they have twenty-two different governments. There's at least four kinds of Arab states. There's oil rich and oil poor, resource rich, resource poor, an monarchies and non-monarchies. So when you think about the Arab world and the future of what's going on just remember that you have a minimum of four different kinds of answers because it really depends on where they fall in that quadrant.

So, I dispute that it's all being rolled back. Reaction airy responses, such as by Asalah and others obviously predictable. And I don't think that there's going to be one common outcome and that's totally fine with me. We've had much less, Libya is a horrible situation, so is Bahrain, so is Syria, and yet for anyone who's spent time traveling in the Arab world and knows these governments. This could have been even uglier, even more brutal, even more violent, where you really turn your head away. Instead, a lot of us, I hope, are still tuning in and cheering on a little bit. So this could have been so much worse given how brutal and horrific these regimes are and quite frankly, logically speaking, from the mere argument that very few of these governments could have been worse. I think things will eventually get better. Sir.

MALE VOICE 3: This analogy of mega diplomacy in the high tech world a hundred years ago was large corporations with innovators. Then came venture capital and private equity. The cooperation between the universities like Stanford and many different projects like at Bell Labs and it's fostered competition. Look at the innovation we've had. So, the question is how do you use that model maybe for some of these other problems that need to be solved?

MR. KHANNA: That is the model and whether it's called the cluster model of the quad model, the Silicon Valley effect where you have government sponsored research from DARPA [phonetic] and other labs where it gets commercialized. You have the companies one place. You fund and have their innovation from the academic side, such as Stanford, and others or MIT Media Labs, they commercialize things. Mostly you've got your government, your academic, your corporate, sort of synthesis there and a nice enabling local government environment. Low tax rates and all these kind of good infrastructure and all these kinds of things. Yes, of course. Right?

So, when I look around the world and I say, well, which governments are doing this? In which states to be more, sort of, accurate. In which states do you see that happening? Not in this one anymore, unfortunately, right? Some people who describe DARPA, people who know it much better than me as a place that isn't investing enough anymore in those long range internet like things. Those total game changing creations life-altering creations like the internet, which is too bad.

On a more modest scale though if you go to a place like Sweden. Their state innovation agency, it's called VINNOVA, is investing in new biotechnology parks and training the next generation of students to do smart infrastructure. Smart grids, energy efficiency, particularly energy efficiency in biotechnology. Some of these leading sectors of the future economies alternative energy sources, massive state investments in those areas 'cause they have the money which we don't have or they think longer term which we don't do. But you put those two together and there a host of governments around that are upping their R & D budgets and doing all these kinds of things. Whether it's China or Korea or Singapore or a couple of the European governments but it's not happening as much here, unfortunately.

But is that the model as you suggested that we should be using and thinking about how to solve public goods kinds of problems? Yes. Are there places in the world that are actually doing it? Yes. Are we one of them? No.

Over here.

MALE VOICE 4: Yes, early on in your discussion you spoke about region - - referring to the West and South America and the recent visit of President Obama. I can't recall the last time an American President spent time in the region. And hasn't China really beaten us to it anyway?

MR. KHANNA: No. That's one of those, I mean, I wrote my first book about this. I went to every region of the world and I said what's Europe doing here, what's America doing here, what's China doing here? I looked at all the economic numbers and the diplomatic relations and the trends going forward. That was about four or five years ago and today still there are people who say, uh-oh, China's eating our lunch. Even in our own backyard their building a port in

Cuba, they're Brazil's second biggest trade partner, they're investing in major infrastructure projects across Latin America. They're buying all of Chile's copper. Sorry?

MALE VOICE 4: Panama Canal?

MR. KHANNA: Panama Canal. They're direction is going to reverse and Venezuela's going to cut off oil to us and send it all to China. We've heard a lot of this stuff in the last five, six years.

This is one region where's China's still not the big player. We still area. Africa is different. Africa is five or six African countries China is very structurally important, particularly the oil-producing countries. In the Far East very much so. Central Asia, China is the game in town. But in South America there's still a very tremendous opportunity to respond to that perceived threat or challenge because China really just wants the commodities. Countries owe their growth, the fact that they were able to pay off IMF loans ahead of schedule, they owe it to the commodities boom which was, of course, driven to some extent by growing Chinese demand. So they're grateful for China. They're also scared viscerally of China.

I just spent a week in Brazil, all of last week. What in my first book reflected the tone of a strategic partnership between China and Brazil, has now become this really under the palpable sense of almost hostility. Because Brazilians, if you make shoes in Brazil, or whatever it is you make in Brazil, if you make anything but chopping wood or raising cows. China's putting you out of business. And now China wants to make airplanes and Brazil is actually the third largest manufacturer of airplanes in the world, Embraer, vying Airbus and Boeing. They're scared of that too. Although I wouldn't want to fly in a Chinese made plane until they've flown a lot of flights in Asia first.

I really think that the mood is shifting away and America is sort of welcomed back more than ever before and I think that's why Obama's visit was very well-timed. So, again, be wary of the sort of, straight line projection, oop, China invested only five million dollars in Latin America twenty years ago and it's a hundred billion today, second only to us and to Europe. Of course, that straight line projection holds for a while and under certain conditions but it can plateau, it can be reversed. Lots of things can happen.

Ma'am.

FEMALE VOICE 1: I would like to ask you an economic question. Given that how can we be expected to compete on a global basis. China has a reserve requirement of between fifteen and seventeen percent as does another prosperous country, Turkey. We're down to two and a half percent. Doesn't that undermine our ability to utilize the banking system for expansion and what would you envision as the way in which the world can move toward a new world order with an improved financial system. What would you suggest?

MR. KHANNA: Right. And I see Noel standing there so I guess I'll have to make this quick. I think that in terms of despite the reserve requirement differential we have actually hoped that the very cash rich financial institutions whether it's banks, Wall Street, American companies would actually be spending that money because we've lowered interest rates and all these other things to invest in job creation, infrastructure, all these kinds of things, and yet they haven't been doing it for political and other kinds of reasons. They can't be forced to do it and that's obviously a big part of the Democratic backlash against Obama is, is saying you let them

off the hook and they're not even spending all this money they have. So that's our domestic problem which is really regrettable, of course, and I would say it's embarrassing and sort of outrageous. That's what it is.

So on the global question in terms of the financial system and how to stabilize it. In terms of the traditional institutions that we have now, the role of the IMF in potentially shepherding the world towards a neutral currency basket and not just dollar dependent. I guess there could be a role for global institutions in that. Obviously it's very important and it's also one issue on which almost everyone agrees except, of course, the Treasury, to some extent. But it's more or less inevitable and hopefully it will be managed well. That would be one major thing obviously. I think again the development of regional development banks and so forth are playing a very big role in Asia and elsewhere so I think that would be stabilizing all at the same time. So, those would be two of the big things that I think will help us to get there on a global level.