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Obama's chance to fashion a new global order

This may well prove to be the luckiest day of Barack Obama's life: he scraped through to win a second term. But it could well prove to be the unluckiest day of his life. A crunching set of challenges could overwhelm him and damage his legacy.

The first challenge is the economy. The fiscal cliff can be postponed if the Republicans cooperate in Congress. But the structural challenge of creating jobs when globalisation and automation have eroded many middle class occupations may prove to be insoluble. Most painfully, Obama may be remembered as the president who led America to the number two position in the world. In 1980, in terms of purchasing power parity, America had a 25 per cent share of the world economy while China had 2.2 per cent. By 2016, America's share will slide to 17.6 per cent while China's will grow to 18 per cent. America is not yet ready to accept becoming number two.

The second challenge is China. A more assertive and nationalist China is raising its head. Japan-China relations are spiraling downward. China is behaving in an unusually aggressive fashion towards its Asean neighbours around the South China Sea, even scuttling the Asean joint communique in July 2012. Xi Jinping could prove to be the most constrained leader China has had in recent times. He is hemmed in by other factions. The weaker he is internally, the more assertive he will have to be externally.

The third challenge is the Islamic world. America has wasted more than a decade fighting an unwinnable war in Afghanistan (which may well collapse in Obama's second term) and a futile war in Iraq. Syria and Bahrain loom as new challenges. The pressure to bomb Iran will grow more intense. But if Mr Obama were to bomb Iran, he would hand China a major geopolitical gift, wreck the global economy with high oil prices and ruin America's prospects of growing again economically.

In short, if Mr Obama is not careful, he could sink into a quagmire of problems that could overwhelm him. The tears he shed in Iowa were in fear of losing. Now the tears may flow as a result of winning. Yet, fortunately for him, there is a solution to each big challenge that could save him and America.

As regards the Islamic world, a two-state solution for Israel and Palestine would suck away much of the anti-American poison and would serve Israel's interests too. Bill Clinton would make the perfect envoy. There is nothing Mr Clinton wants more than the Nobel Peace Prize that Mr Obama and Mr Gore already have. His Taba Accords can be revived and modified. Each recent US president has made the mistake of waiting till the end of his term to seek Middle East peace. Mr Obama can do the opposite.

Equally important, Mr Obama should revisit the wonderful speeches he delivered in Cairo and Istanbul. The contents were correct. Now, in his second term, he can implement them. The best way to undermine the Iranian regime is through engagement, not isolation. This is the lesson Asia has taught the world through Myanmar. And the world's most populous Islamic country, Indonesia, is still waiting for Mr Obama's triumphant return as the local boy who made good. Mr Clinton captured Indian hearts, Mr Obama can do the same with Indonesia – which could well become the new modernising beacon for the Islamic world.

Mr Xi also wants nothing more than a deep engagement with America. The only way to strengthen his rule is to focus on internal economic development, rather than external distractions. GM and Ford have made record profits in China. Other US companies can do the same. Many US states welcome Chinese investments. Mr Xi needs economic growth. So does Mr Obama. A win-win strategic business partnership is feasible.

A strong US-China economic partnership can also pave the way for an agreement on trade liberalisation. In his second term, Mr Obama can stand up to the agricultural lobbies that scuttled the Doha round of trade talks. Most emerging economies are also prepared to make concessions. Privately, many trade experts tell me a deal is feasible.

Most fundamentally, long-term trends are also working in Mr Obama's favour. The great convergence of incomes, which will result in the explosion of the global middle class from 1.8bn today to 3.2bn in 2020, will push the world towards greater global integration and cooperation. The number of people dying in interstate conflicts is the lowest it has ever been. Yes, Mr Obama will have to cut US defence budgets, but there could not be a more propitious historical moment to do so.

This is Mr Obama's opportunity. The world is looking to him to take advantage of a uniquely propitious moment for fashioning a new global order. Contrary to conventional wisdom, the stars are aligned in his favour. All he has to do now is to lead.