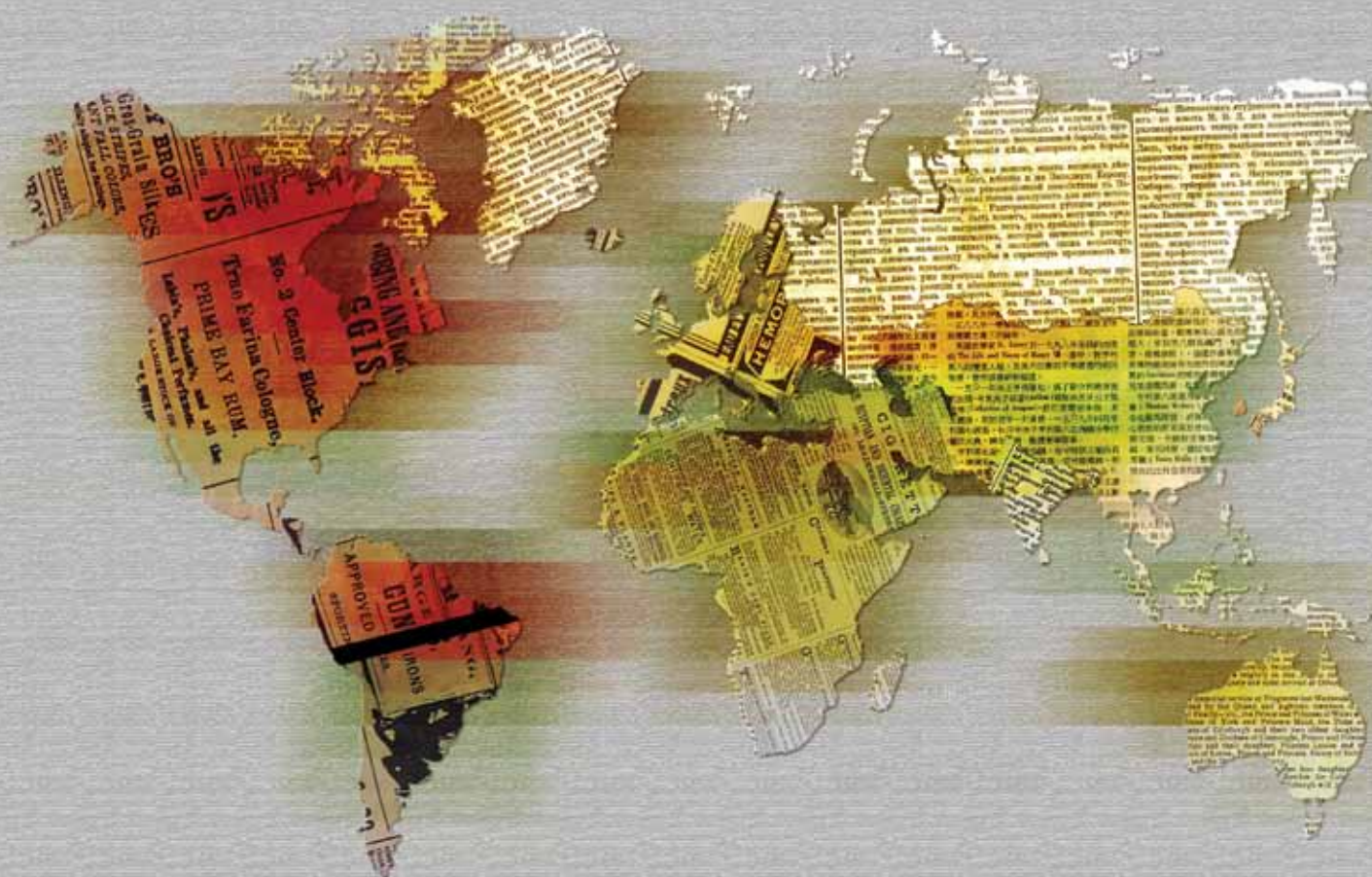


THE NEW WORLD ORDER

Joel Kotkin



November 2011

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THE NEW WORLD ORDER

Joel Kotkin

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THE NEW WORLD ORDER: MAPPING THE FUTURE

The fall of the Soviet Union nearly a quarter of a century ago forced geographers and policy makers to rip up their maps. No longer divided into “west” and “east”, the world order lost many of its longtime certainties.

In our attempt to look at the emerging world order, we have followed the great Arab historian Ibn Khaldun’s notion that ethnic and cultural ties are more important than geographic patterns or levels of economic development. In history, shared values have been critical to the rise of spheres of influence across the world. Those that have projected power broadly – the Greek, Roman, Arab, Chinese, Mongol and British empires – shared intense ties of kinship and common cultural origins. As Ibn Khaldun observed: *“Only tribes held together by a group feeling can survive in a desert.”*

Of course, much has been written about the rising class of largely cosmopolitan “neo nomads”, who traipse from one global capital to another. But, for the most part, these people largely serve more powerful interests based on what we may call tribal groupings: the Indian sphere of influence, the Sinosphere and the Anglosphere.

Our approach departs from the conventional wisdom developed after the Cold War. At that time it was widely assumed that, as military power gave way to economic influence and regional alliances, the world would evolve into broad geographic groups. A classic example was presented in Jacques Attali's *Millennium: Winners and Losers in the Coming World Order*. Attali, a longtime advisor to French President Francois Mitterrand, envisioned the world divided into three main blocs: a European one centered around France and Germany, a Japan-dominated Asian zone, and a weaker United States-dominated North America.

Time has not been kind to this vision, which was adopted by groups like the Trilateral Commission. The European Union proved less united and much weaker economically and politically than Attali and his ilk might have hoped. The notion of Japan, now rapidly aging and in a two-decades long slump, at the head of Asia, seems frankly risible. Although also suffering from the recession, North America over the past quarter century has done better in terms of growth and technology development, and has more vibrant demographics than either the EU or Japan.

More recently, attention has turned to the rise of the so-called BRIC countries – Brazil, Russia, India and China. Yet it turns out that these countries have even less in common than the squabbling members of the European Union. For one thing, they represent opposing political systems. Brazil and India are chaotic but entrenched democracies, for example; Russia and especially China remain authoritarian, one-party dictatorships.

These economies also are not particularly intertwined. Brazil is a major food exporter; Russia's economy revolves around energy and minerals; China dominates in manufacturing; and India is vaulting ahead based largely on services. Brazil's leading export markets, for example, are the United States and Argentina; Russia and China constituted together take barely 8 percent of the country's exports. China's largest trading partners by far are the United States, Hong Kong, Taiwan, South Korea and Japan. India ranks only ninth and Brazil tenth.

More important still, no common "tribal" link, as expressed by a shared history, language, or culture unites these countries and peoples. This link is fundamental to any powerful and long-lasting power grouping.

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In contrast, the Indian and Chinese spheres, for example, are united by deep-seated commonalities: food, language, historical legacy and national culture. A Taiwanese technologist who works in Chengdu while tapping his network across east Asia, America, and Europe does so largely as a Chinese; an Indian trader in Hong Kong does business with others of his “tribe” in Africa, Great Britain and the former Soviet Republics in east Asia. Beyond national borders, these spheres extend from their home countries to a host of global cities, such as Hong Kong, Singapore, London, New York, Dubai, San Francisco, and Los Angeles, where they have established significant colonies.

The prospects for the last great global grouping, the Anglosphere, are far stronger than many expect. Born out of the British Empire, and then the late 20th Century, the Anglosphere may be losing its claim to global hegemony, but it remains the first among the world’s ethnic networks in terms of everything from language and global culture to technology. More than the Indian Sphere and Sinosphere, the Anglosphere has shown a remarkable ability to incorporate other cultures and people.

In the future, we will see the rise of other networks, as well. An example would be the Vietnamese sphere of influence, which reflects both the rise of that particular Asian country, and the influence of its scattered diaspora across the world. Culture is key to understanding the Vietnamese sphere: the country’s history includes long periods of Chinese domination that made it resistant to being absorbed into the Sinosphere. Instead, as we argue, Vietnam is likely to be more closely allied, first and foremost, with the United States and its allies.

Finally, our maps deal with basic demographic issues that will dominate the future. We trace the global rise of women to prominence in business, education and politics. Although Western nations still lead in female empowerment, we argue that the most significant changes are taking place in developing countries, notably in Latin America. It will be these women – in Sao Paolo, Mumbai, and Maseru – who increasingly will shape the future female influence on the world.

Yet this positive development also contains the seed of dangers. Female empowerment, along with urbanization, has had a depressing effect on fertility rates, seen first in the highly developed countries, and now increasingly in developing ones. Looking out to 2030, many countries, including the United States and China, will be facing massive problems posed by too many seniors and not enough working age people.

As has always been the case, the emerging world order will face its own crises in the future, with, no doubt, unexpected, unpredictable results. But our bet is solidly on the three spheres of influence which constitute the bulk of this report.



INDIA CONQUERS

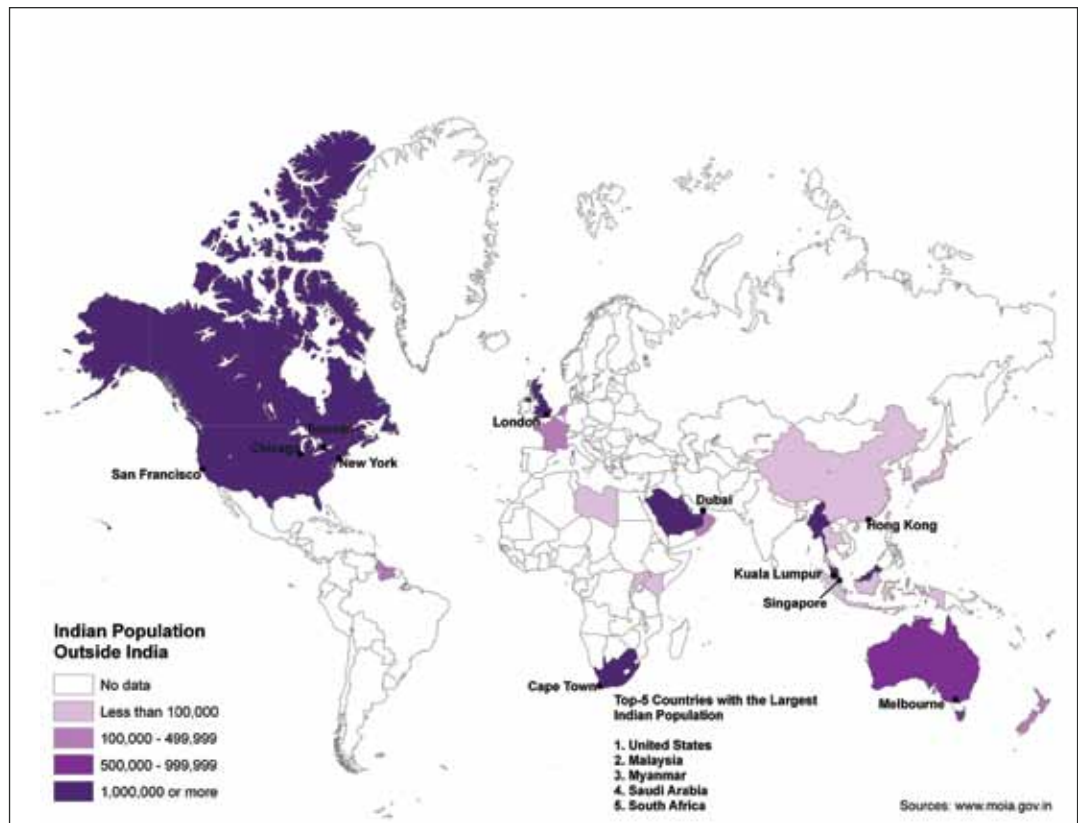
By Joel Kotkin and Shashi Parulekar

From the exclusive Club Lounge on the 19th floor of Singapore's Mandarin Oriental, Anish Lalvani gazes out at the city's skyline, a dazzling array of glass and steel and vertical ambition. The Lalvani family has come a long way since the days when Anish's paternal grandfather, Tirath Singh Lalvani, got his start in business by retailing medicines to King George VI's soldiers in Karachi. Back then the city was a part of British colonial India – until independence arrived in 1947 – and its inhabitants suddenly found themselves amid the bloody turmoil of the newborn Pakistan. The Lalvanis, like millions of others on both sides of the border, fled for their lives. But instead of making new homes in present-day India, the Lalvanis sought their fortunes abroad. Today the family's Hong Kong – based Binatone Group employs some 400 people on four continents. *"We couldn't break the old boys' network," says Anish. "But overseas we created our own."* *

This piece originally appeared in *Newsweek*.

* Interview with the authors: Joel Kotkin & Shasi Parulekar

Indian population outside India³



The Lalvanis' voyage from refugees to moguls embodies a worldwide phenomenon: the growing size and sway of the Indian diaspora. The exile population now numbers some 40 million people, spread across West Africa, the Americas, and East Asia. In many of those countries – including the United States, Britain, Canada, Singapore, and Australia – Indian immigrants and their offspring have both higher incomes and higher education levels than the general population.^{1,2} The international importance of India itself is rising to an extent unmatched since the onset of the European-dominated global economy in the 17th century. And with the country's economy growing at roughly 8 percent a year for the past decade – more than double the rate of the United States – India's influence can only continue to strengthen. Most economists predict that by 2025 the country will outstrip Japan to become the world's third-largest economy.^{4,5}

India is more dynamic than any other major country in demographic terms as well. Its population today is 1.21 billion, second only to China's 1.3 billion, and thanks to the latter's one-child policy, India's numbers are expected to surpass those of China by the late '20s, when India will have an estimated 1.4 billion people versus China's 1.39 billion. Currently home to the world's second-largest contingent of English speakers, India seems destined to step into first place, ahead of the United States, by 2020.^{6,7,8}

But the mother country's rise has been more than equaled by that of India's émigrés. In fact, the diaspora remains one of India's most important sources of foreign capital. According to the most recent available figures, workers from India in 2009 sent \$49 billion in remittances to relatives back home, outpacing China by \$2 billion and Mexico by \$4 billion. Four percent of India's gross domestic product comes from North American remittances alone.^{9,10}



Indian investment (in millions of dollars)^{12, 13}

In fact, India's business community tends to be family-centered, both at home and abroad. Chinese entrepreneurs are more than twice as likely to be financed through banks, most of them state-owned. In contrast, Indian firms and business networks tend to be essentially familial and tribal, extending in networks across the world. *"Much of the Indian middle class has ties outside India,"* notes researcher Vatsala Pant, formerly with the Nielsen office in Mumbai. *"Our ties around the world are also family ties."*¹¹

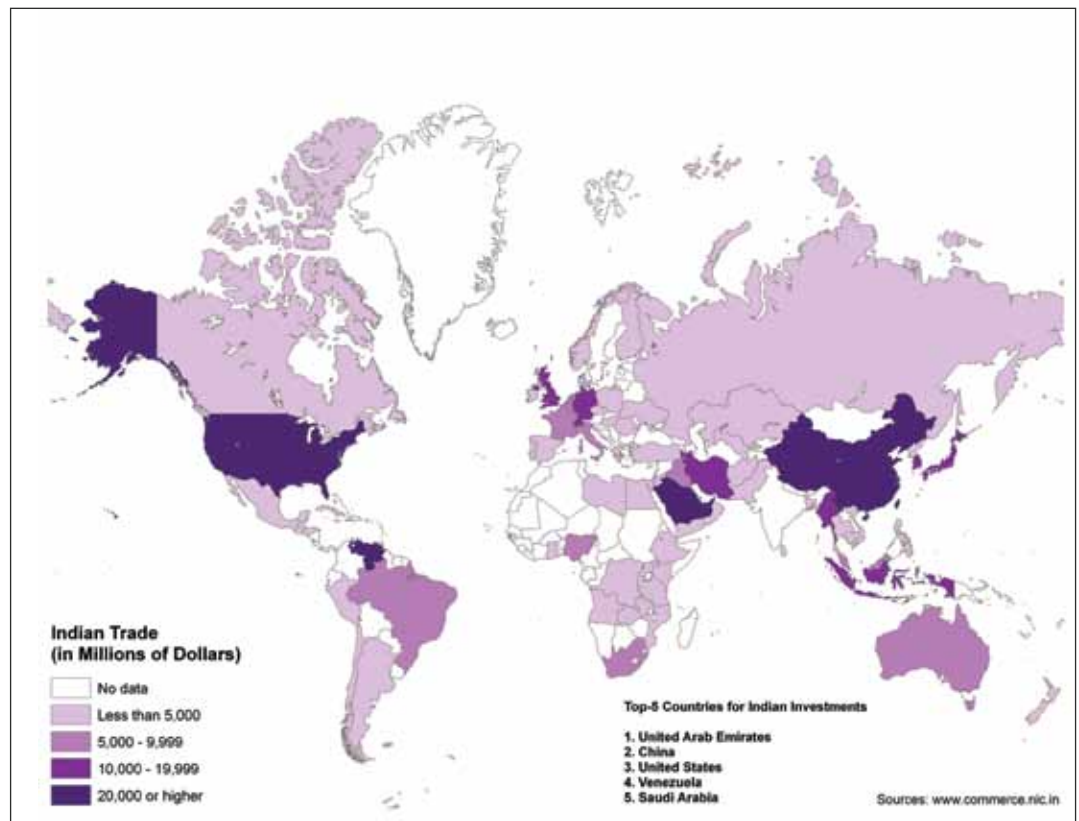
The importance of such familial links can be seen in the close relationship between diaspora settlement and commerce. The top five areas for Indian investment – Mauritius, the Americas, Singapore, the United Arab Emirates, and the UK – have large, established Indian communities and Indian-run companies that are particularly active in electronics and software.

Today, even the largest Indian firms, such as Tata and the Reliance Group, are controlled by groups of relatives whose power is enhanced by their wide geographic reach. *"We're very flexible about doing business,"* notes Lalvani, who was raised in Britain, is a permanent resident of Hong Kong, and is married to an Indian-American. *"We're global and cosmopolitan – ethnically Indian but also tied to the US, UK, and Hong Kong. They're all things that make me who I am, and make our business work."*^{**}

That business illustrates nicely the worldwide extent of India's entrepreneurship. In 1958 Anish's father, Partap Lalvani, and his uncle Gulu teamed up in London to launch Binatone as a supplier of Asian-built consumer electronics and electrical goods. Its range of products grew to include domestic appliances like kettles, toasters, and irons, and today its employees are active in otherwise neglected markets, such as the former Soviet republics of Central Asia and off-the-grid corners of Africa.

^{**} Interview with the authors: Joel Kotkin & Shasi Parulekar

Indian trade (in millions of dollars)¹⁴

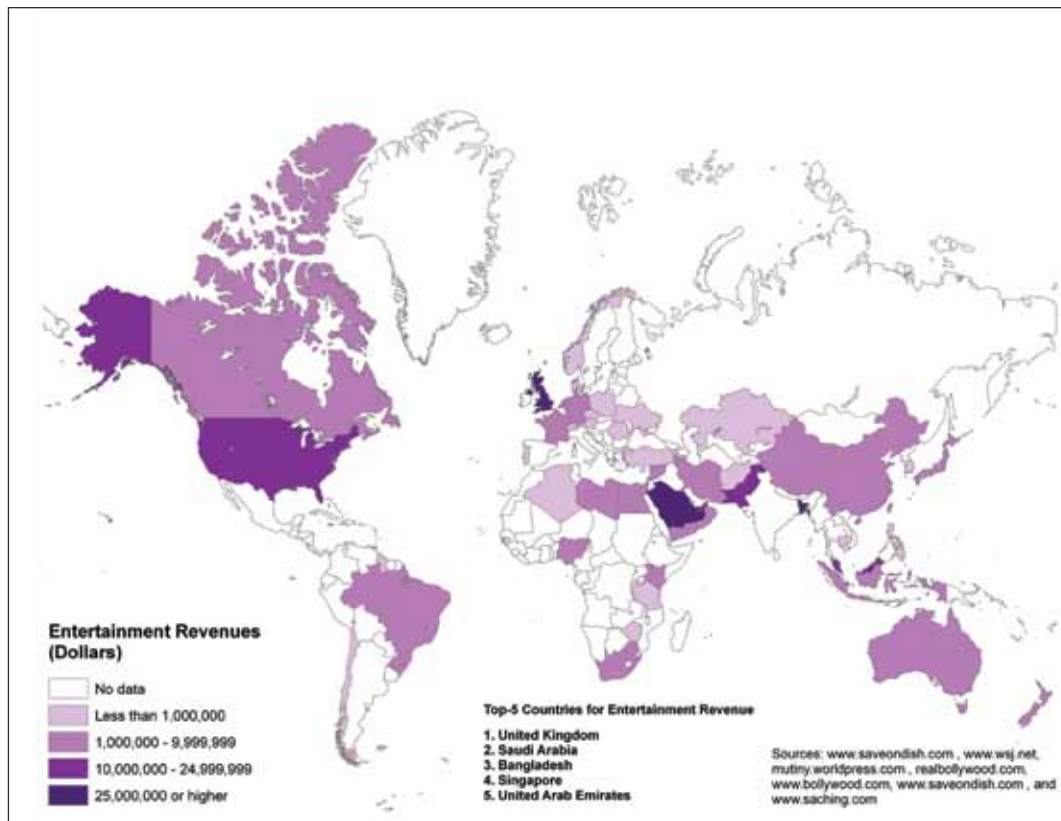


The Indian diaspora began when Indian workers fanned out across the British Empire during the late 18th century. The exodus intensified after Britain abolished slavery in 1834, setting off a major demand for labour around the globe. Indians were sent out to become contract labourers on Malaya's rubber plantations, or to work as indentured servants in the West Indies. Although many eventually returned home, others stayed in their new countries, and in many cases became integral parts of the national economy. Some rose to skilled positions in the colonial civil service and military, while others became businessmen, teachers, doctors, and moneylenders.

Even after the empire's end, émigrés kept pouring out of India to seek better lives abroad – and with them they brought brains and a willingness to work hard. In the United States, where the Indian diaspora represents less than 1 percent of the population, its members account for roughly 13 percent of the graduate students at the country's top universities. Overall, 67 percent of people of Indian descent living in America hold at least a bachelor's degree, compared with 28 percent of the total population. And those statistics are echoed elsewhere in the world¹⁵ In Canada, people of Indian descent are twice as likely to hold graduate or professional degrees. In Britain, some 40 percent of the medical students and doctors in the National Health Service are of Indian, Pakistani, or Bangladeshi origin.

Indians' presence in the business realm is no less notable than in the world of higher learning. According to the latest survey by the University of Essex, the per capita income of racial Indians in Britain is about £15,860 (nearly \$26,000), higher than that of any other ethnic group in the country and almost 10 percent above the median national income. The study found that the unemployment rate among ethnic Indians is close to half the national average. In the United States, recently published data estimate average household income

Entertainment revenues (dollars) ²⁴



at \$50,000, but it's \$90,000 for ethnic Indians – and a 2007 survey found that between 1995 and 2005, more companies were launched by ethnic Indians than by immigrants from Britain, China, Japan, and Taiwan combined.¹⁸

The expatriates have brought their culture with them – and that too is spreading into the general population wherever they go. Two million Britons enjoy at least one Indian meal per week, and onscreen entertainment from India has permeated the global market.¹⁹ Not so long ago, Bollywood movies were largely intended for domestic consumption, but foreign sales have become significant in recent years, with the large markets in the dominant diaspora countries.^{20, 21} Today, Bollywood movies and television shows command an estimated \$3 billion to \$4 billion in overseas receipts, placing India's film industry second only to Hollywood itself.²² In fact, India beats the rest of the world in the number of movies made and tickets sold, and industry sources estimate that as many as a third of ticket buyers in the West are non-Indians.²³

Back in India, conditions remain harsh despite the country's recent advances. The average life span in Mumbai is barely 56 years, a full quarter century less than in Britain and the United States, and poverty across the country remains at shocking levels, with four in 10 Indians living on less than \$1.25 a day. Statistics like that are scarcely an incentive for members of the diaspora to return to their homeland.²⁴

For entrepreneurs like Anish Lalvani, however, there's a more compelling reason to remain abroad: it helps them stay in closer touch with the global marketplace. Having his home base in Hong Kong provides Lalvani with access to Chinese manufacturing and a broad talent pool. "We don't have many Indians in our management," he says proudly of the Binatone Group's operations. "We get the talent from around the world."

As large as it may be, Binatone is far from the scale of its Chinese, American, or Japanese competitors. That means it has to keep a keen eye out for new opportunities that the bigger guys have overlooked. Building family businesses through such dogged opportunism is what has driven the expansion of the Indian Subcontinent. *"The emerging markets are small, and it takes a lot of flexibility to get in there,"* Lalvani says. *"We have to go into places where the costs are low, and there are minimal chain stores, so we can get our stuff on the shelves."* But as far as Lalvani and others like him are concerned, it's a matter of fundamental self-respect. *"It's more than just ginning up cash,"* he says. *"It's about not screwing up what your father started."****

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*** Interview with the authors: Joel Kotkin & Shasi Parulekar



INSIDE THE SINOSPHERE

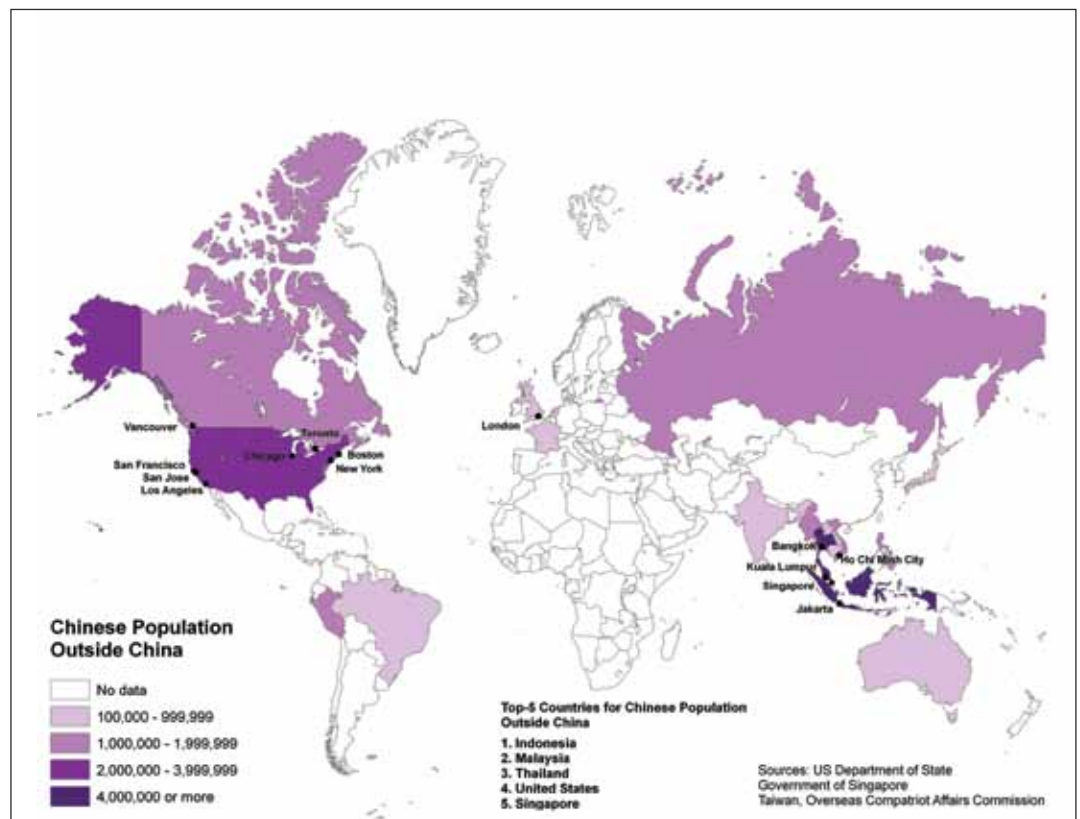
By Joel Kotkin and Sim Hee Juat

Avis Tang, a cool, well-dressed software company executive, lives on the glossy frontier of China's global expansion. From his perch amid tower blocks of Tianfu Software Park on the outskirts of the Sichuan capital of Chengdu, the 48-year-old graduate of Taiwan's National Institute of the Arts directs a team of Chinese software engineers who are developing computer games for his Beijing company, Perfect World Network Technology, for the Asian and world market.

A glossy software office in Chengdu seems a long way from the images of centrally directed, belching factories seeking to dominate the global economy. But a close examination of the emerging Sinosphere – or Chinese sphere of influence – shows an economy that is globally dispersed, multinational and increasingly focused on the high-tech and service sectors.

This piece originally appeared at Forbes.com

Chinese population outside China



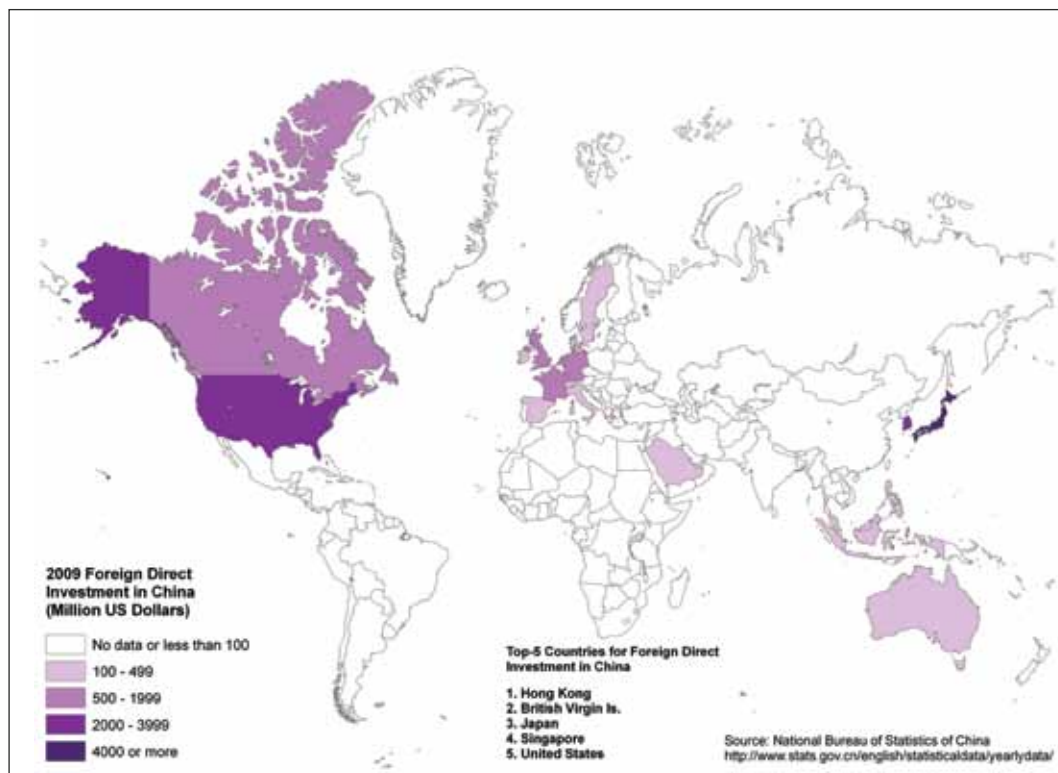
Yet if Tang came to China to work for Interserv, a Taiwan game developer, he would see that the future of his industry – including its creative side – lies not only in the coastal cities but, increasingly, in those stretching across the vast Chinese interior. *“In ten years perhaps all these cities will follow the path of Shanghai,”* says Tang, as technology allows businesses that once had to situate themselves in coastal megacities to expand into the interior.¹

Widely considered one of the most “livable” of China’s big cities², Chengdu seems to Tang something of an incipient Silicon Valley. The area’s software revenues increased more than tenfold over the past decade, while an estimated 200,000 people are expected to be working in the city’s software industry by 2012.

Like many of his fellow managers at the sprawling park, home to over 800 foreign-owned companies,³ Tang is not a citizen of China. He’s from Taiwan and never set foot in the People’s Republic before 2001. His wife remains in Taiwan (Tang flies there every month or two to see her).

Chinese capitalism has long relied on diaspora entrepreneurs like Tang. In this sense, the rise of China represents the triumph of a race and a culture. Indeed for most of its history China’s most important export was not silk or porcelain but people. To measure the rise of the Sinosphere, one has to consider not just China itself but what historian Lynn Pan has described as the “sons of the Yellow Emperor.”⁴

The Sinosphere’s roots lie with the Han expansion into southern China during the Tang dynasty (618-907). By the 12th century, the newly Sinofied southern Chinese had started moving south. There they created trade-oriented colonies like Vietnam, Burma, Malaya and the island of Java. In the 1600s Chinese settlers overcame the aboriginal inhabitants of Taiwan, creating another powerful base in the South China Sea.⁵



2009 Foreign direct investment in China (millions US dollars)

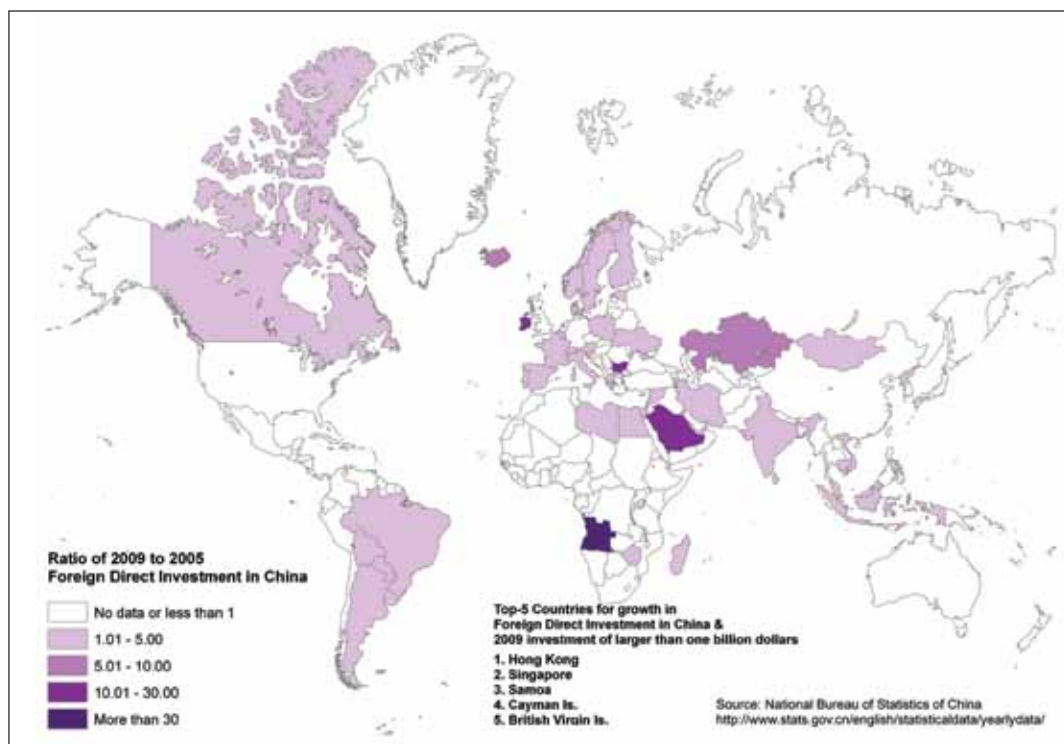
At its height, during the expeditions of the legendary eunuch Admiral Zheng He in the early 15th century, China's maritime "sphere of influence" extended all the way to the Indian Ocean and beyond.⁶

Although ensuing Chinese regimes pulled back from expansion and all but abandoned their scattered children, the colonies, particularly in Southeast Asia, survived. They developed business and industries suitable to their new homes, but also maintained their cultural heritage and language. After the Chinese Communist takeover of the mainland in 1949, the diaspora colonies retained their capitalist orientation. Many established trading operations and sent their children to the United States, Canada and Australia, where they enjoyed remarkable success.

Hong Kong, Singapore, Taipei, Rangoon, Bangkok and Jakarta can be seen as the original testing grounds for Chinese capitalism. In the past few decades North American regions such as Silicon Valley, Southern California, Toronto, Vancouver and New York-New Jersey have been added to the mix. Overall the entire overseas Chinese population has risen to nearly 40 million. Taiwan, which is de facto independent, is home to an additional 23 million, and Hong Kong and Macau, officially part of China but governed under different laws, boasts some 7.5 million.⁷

Even today the ties between overseas Chinese and their home country remain close. The original diaspora regions – including Hong Kong – remain principal sources of investment into China. Among the ten largest sources for inbound investment to the PRC are Hong Kong, by far the largest investor, fourth-ranked Singapore and ninth-ranked Taiwan. Each brings more investments into China than such major powers as Germany, France, India and Russia. The United States, home to the largest overseas Chinese population outside Asia, ranks fifth.

Ratio of 2009 to 2005 foreign direct investment in China

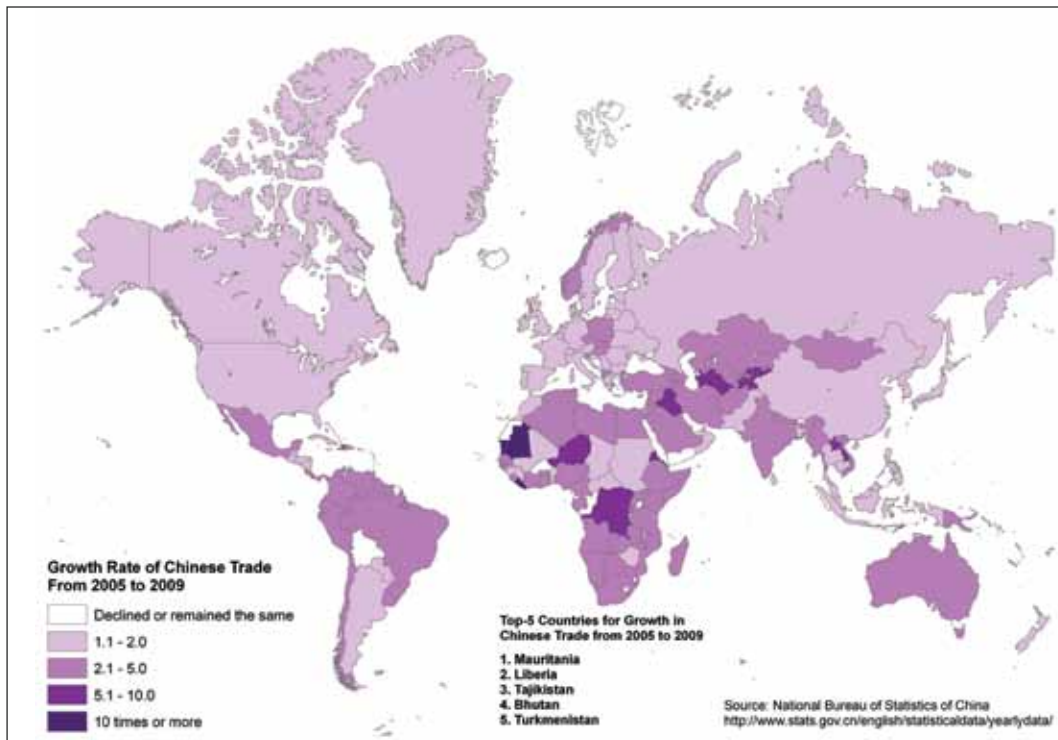


Other investments come from places like British Virgin Islands, the Cayman Islands and Samoa, which often act as conduits for investors who do not want to be too closely monitored. This seems to include many Chinese investors, particularly in Taiwan, who may not want too much scrutiny of their outlays into the PRC. This includes even some Chinese government-owned firms such as China Mobile Communication Corp., which has established an investment hub in the far away British Virgin Islands.

As China itself has become wealthier, financial flows from the diaspora have continued to increase. Hong Kong's investment into China grew from \$18 billion in 2005 to \$45 billion four years later. Singapore's investment surged from \$2.2 billion to \$4.1 billion in the same years. This has occurred while new investment from such powerhouses as the United States, Japan, Korea and Germany has stagnated or even dropped.

The second phase of the Sinosphere has been dominated largely by industrial projects, many of them financed or helped technologically by the diaspora. Much of trade, initially, was targeted to the rich consumer markets of North America, Europe and Japan. Between just 2007 and 2009 China's share of world exports expanded from 7% to 9%.⁸

But today the Sinosphere's trade flow is shifting. An analysis of trade growth between 2005 and 2009 shows a significant change in focus away from advanced countries to the developing world. In the second half of the last decade, for example, trade with the United States, Japan, Germany, South Korea and the Netherlands grew by less than 50%. In contrast, commerce with key developing countries – including Afghanistan, Tajikistan, Mauretania, the Democratic Republic of the Congo, Liberia, Turkmenistan, Iraq and Laos



Growth rate of Chinese trade from 2005 to 2009

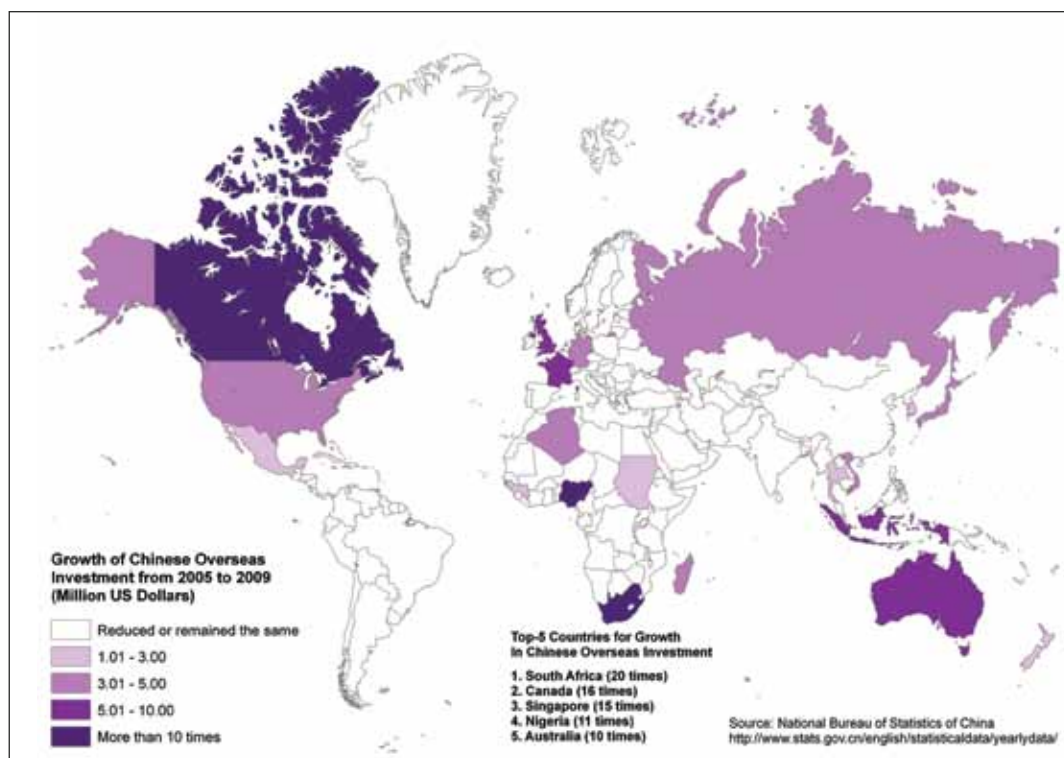
– grew ten times. Trade with large emerging economies, notably Brazil, India, Mexico and South Africa, increased five times during the same period.

China's thirst for resources is a big driver of this shift. Now the world's largest car market and consumer of energy, China is in great need of oil, gas, and other natural resources. It also requires vast amounts of foodstuffs, notably corn and soybeans, for its increasingly urbanized population.

Two of China's new trade thrusts follow historic patterns of expansion, the first being growing investment in the Mekong Delta and Southeast Asia (Laos, Vietnam, Burma, Thailand, Cambodia and Malaysia). For 2010, Chinese invested \$7.15 billion in energy projects alone in Burma⁹. On the military side, this also includes moves by China to secure offshore islands for energy development, which is a potential source of conflict with Vietnam, the Philippines and Japan.

The second big expansion is along the old "silk road" connecting eastern China to the energy and mineral rich "stans" of Central Asia¹⁰. This shift enhances the importance of inland Chinese cities, such as Xi'an, Chengdu and Chongqing, which are natural entrepôts for central Asian trade. Perhaps even more important may prove the role of Kashgar, which was designated last year as the Special Economic Zone. Sitting on the western edge of the Xinjiang Uyghur Autonomous Zone near the border of Tajikistan, the Chinese envision Kashgar as the main rail and air link to the stans. Recent disturbances by the local Muslim majority however, could threaten these ambitious plans.¹¹

Growth of Chinese overseas investment from 2005 to 2009 (millions US dollars)

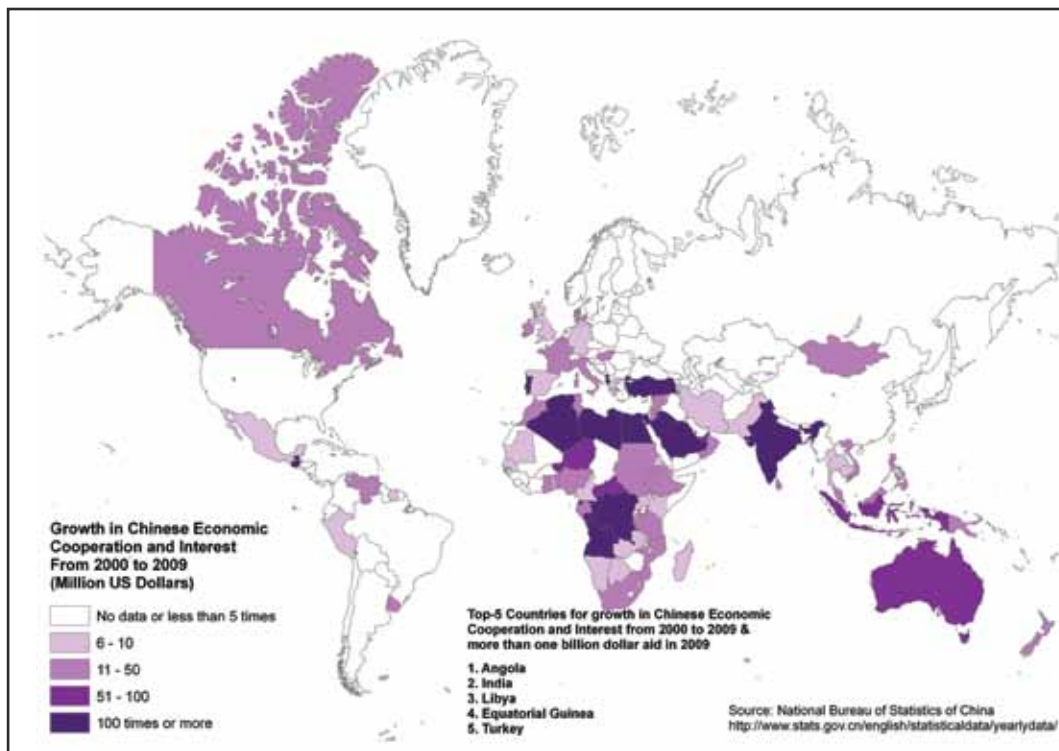


As China's economy and wealth has grown, it has moved from being merely a recipient of inbound investment into a major exporter of capital. China's outbound investment is growing much faster, rising 21% in just the past year; its overseas investment overall has grown from 53.3 billion in 2005 to 224.4 billion in 2009.

Although still the largest destination for foreign investment, the country has vaulted into the top four in terms of outbound outlays¹² just behind the US, Japan and the UK. It is not inconceivable that China could challenge the US as the world's top foreign investor.

The country's investment strategy seems to be following two powerful trends. One has to do with the acquisition of resources to feed the Chinese industrial machine and its growing consumer market. This explains the rapid growth of investment into the Middle East, South America and Africa. Four of the five fastest-growing investment areas for large scale investments – South Africa, Canada, Nigeria and Australia – are all major commodity exporters. Chinese investment in these countries has been growing from three to five times as quickly as those in the US or Western Europe.

The second, less obvious, trend relates to the idea that these countries, with generally faster growing populations, represent the most lucrative future markets for Chinese exporters. This may be best seen in the rapid growth of Chinese government grants as well as the provision of interest-free and concessional bank loans, such as those provided by the government's Exim bank¹³, primarily to Chinese companies seeking to invest in developing nations, especially Africa, over the past decade. PRC financial backing for companies and projects in countries such as Angola, India, Equatorial Guinea, Turkey, Egypt, the Congo and Algeria have grown over 100 times since 2005. Other key developing countries such as South Africa, Ethiopia, Somalia and Ghana all saw increases of tenfold or more.



Growth in Chinese economic co-operation and interest – from 2000 to 2009 (millions US dollars)

These developments tell us something of the future of the Sinosphere. It will be largely funded by the Chinese and their diaspora, less focused on the West and more on developing countries, including increasingly those outside the traditional stomping grounds of Chinese entrepreneurs. The emerging Sinosphere is also likely to be somewhat less focused on manufacturing and more on services like real estate, finance and high-technology exports. This is partially due to the appeal, for manufacturers, of less expensive, more youthful countries like Bangladesh¹⁴, Vietnam and Burma. Wages for manufacturing workers¹⁵ in the Philippines, Vietnam and Indonesia are now less than half of those in China.

These shifts are already evident by looking at recent trends in inbound investment to China, much of it from the diaspora and tax havens. Between 2005 and 2009, for example, industrial investment fell from 70% to barely 50% in 2009. The total investment in industry has remained stagnant while dollars into scientific research have grown almost five-fold. We can expect more of this as China prepares to challenge America, Japan and other advanced countries in basic research¹⁶. At the same time investment into real estate has tripled, while both software and financial flows have more than doubled.

All this explains the importance Chinese officials place on expatriates like the Taiwan-born Tang. In the 1980s and 1990s Taiwanese and Hong Kong firms spearheaded the development of China's manufacturing prowess. Now the mainland leadership hopes that high-tech executives such as Tang will nurture and direct China's leap into the first ranks of the global digital economy, with Perfect World's Chengdu engineers epitomizing the future imagined by China's aggressive regional officials. The fact that the company's games are based largely on Chinese mythology makes the effort an even more natural fit.

But Perfect World is not just looking at the Chinese or diaspora markets; it is also marketing aggressively to young gamers in Europe and North America.

All this can be seen as a direct challenge to the long dominant software and entertainment industries of the West, heretofore largely unchallenged by China. In a world increasingly 'sinofied' there may be huge potential for Sinosphere companies to move beyond exporting tangible goods, and increase their trade in ideas and culture to the rest of the world.

"We are well on our way," Tang explains from his perch in Chengdu. "China's move into this kind of business is just beginning."

FDI into China (2005-2009) by sectors

INDUSTRY	RATE OF GROWTH
Services to Households & Other Services	6x
Wholesale & Retail Trades	5.2x
Management of Water Conservancy, Environment & Public facilities	4x
Scientific Research, Technical Service & Geological Prospecting	4.9x
Real Estate	3.1x
Agriculture, Forestry, Animal Husbandry & Fishery	2x
Information Transmission, Computer Services and Software	2.2x
Financial Intermediation	2.1x
Leasing & Business Services	1.6x
Production and Supply of Electricity, Gas and Water	1.5x
Hotels & Catering Services	1.5x
Transport, Storage & Post	1.4x
Construction	1.4x
Mining	1.4x
Manufacturing	1.1x
Health, Social Security & Social Welfare	1.09x
Culture, Sports & Entertainment	1.03x
Education	0.76x
Public Management & Social Organizations	0.002x

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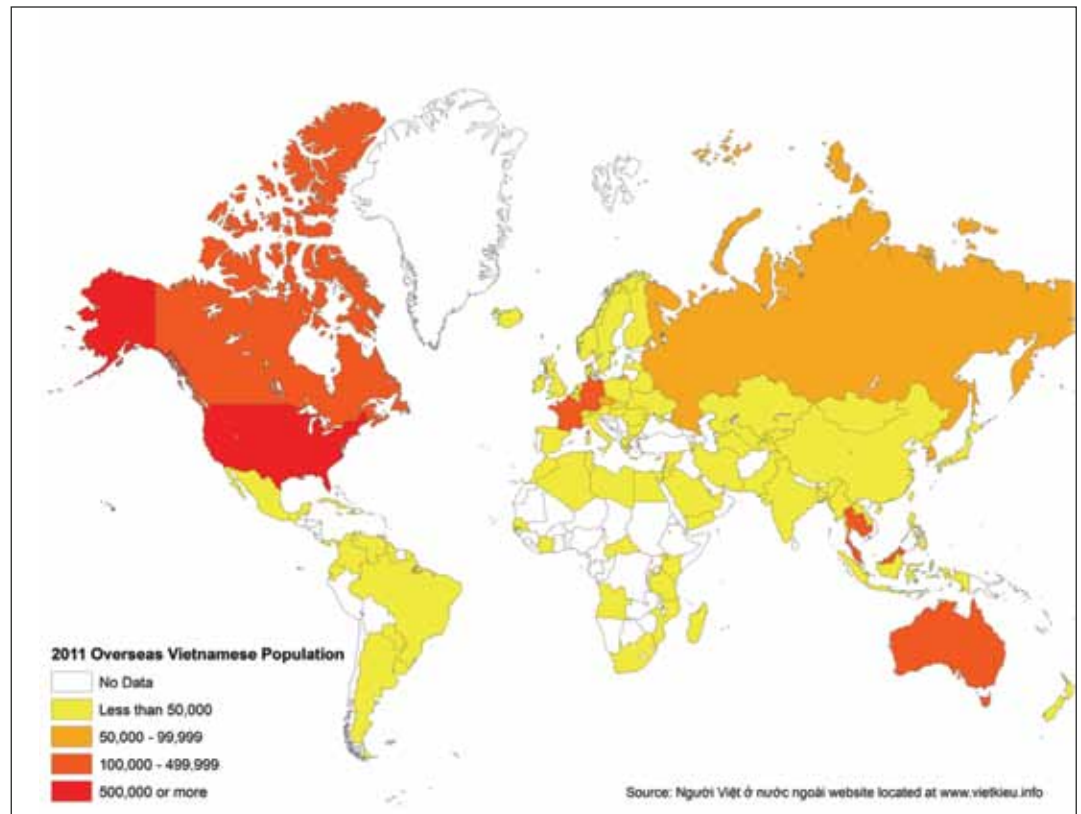
VIETNAM: THE UNCHINA

By Joel Kotkin and Jane Le Skaife

Many experts, here and abroad, are pronouncing the demise of the American era and the rise of China. Yet if America still wants to play in the dynamic Asian market, there may be no more suitable ally than its old antagonist, Vietnam.

In some senses, Vietnam has emerged as the unChina, a large fast-growing country that provides an alternative for American companies seeking to tap the dynamism of East Asia but without enhancing the power of a potentially devastating global competitor. With 88 million people, Vietnam may not offer as large a market, but it has strong historical, cultural and strategic reasons to lean towards America.

2011 Overseas Vietnamese population



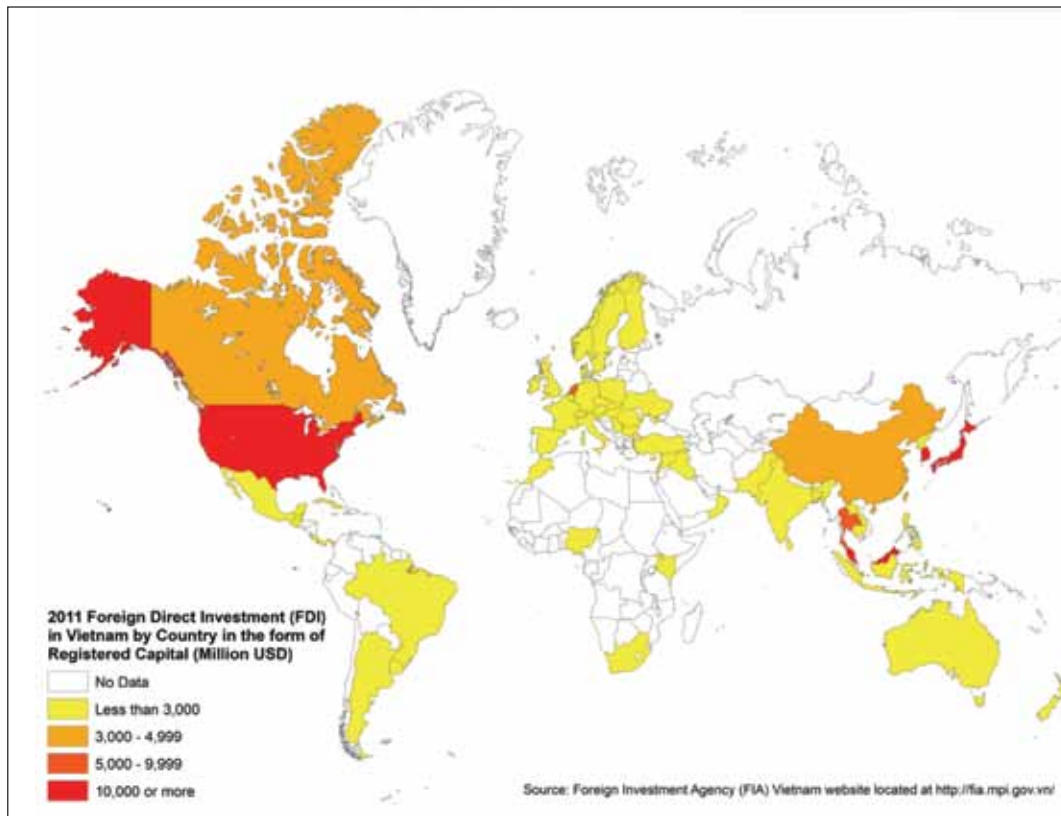
WHY AN UNCHINA?

Vietnam has deep historical reasons for wanting to link closely with the United States and its other allies, such as Singapore, Thailand, South Korea and most importantly Japan, which is one of Vietnam's largest foreign investors and markets. Some of this has to do with the country's unique history, which has been dominated by a quest for independence from colonial powers.

Of course France, Japan and later the United States tried to impose their will on the country, but by far the biggest threat has always been its looming neighbour to the north. Some imperialists, it appears, are more troubling than others.

The reasons lie in history. France, Japan and the United States intervened in Vietnam for comparatively short periods of time. In contrast, China has had an unrelenting interest in Vietnam and its 2,140-mile coastline ever since its nearly thousand year rule over the country centuries earlier (i.e., 111 BC – 938 AD). The two Communist countries have been embroiled in numerous territorial disputes over the years with the most recent one involving the South China Sea, which is believed to have rich oil and gas deposits as well as important shipping routes.

As a result Vietnamese see some of their former colonialist or "imperialist" powers as necessary allies in protecting themselves from escalating territorial threats from China. Opening Cam Ranh Bay naval base to foreign warships, notably to those from the United States, is an illustrative example of Vietnam's defensive strategy during the unfolding geopolitical competition. The US is expected to be the bay's primary foreign visitor and that *"the regular presence of US warships at Cam Ranh Bay,"* noted Ian Storey, a fellow at the



2011 Foreign Direct Investment (FDI) in Vietnam by country in the form of registered capital (million USD)

Institute of Southeast Asian Studies in Singapore, "*might make China think twice about using coercive military diplomacy against Vietnam.*"

THE RISE OF THE DIASPORA

However, perhaps the greatest thing tying America to Vietnam is people. When the Communist government overran the former South Vietnam in 1975, several million Vietnamese fled the country. The Vietnamese eventually settled in 101 different countries throughout the world with the majority of them currently residing in the United States, France, Canada, and Australia. There are currently about 4 million overseas Vietnamese living outside of Vietnam. Some settled in the former colonial ruler, France, and others in Australia, Canada, and Singapore. But the largest – roughly forty percent – ended up in the United States, which is now by far the largest settlement of overseas Vietnamese with estimates as high as 2.2 million.

Initially hostile to the Communist regime, the overseas Vietnamese population – also known as the Vietnamese Diaspora – turned away from the country, focusing instead on building new lives in their host countries. They flourished particularly in the United States, clustering in places such as Orange County and San Jose, California as well as Texas and Louisiana. In 2009, they were enjoying levels of prosperity comparable to the national average with a median family income of \$59,129 and 64.6 percent owning homes. Vietnamese are also three times as likely to be in such fields as information technology, science and engineering than other immigrants, and have one of the highest rates of naturalization at 72.8 percent.

For decades contact between this dynamic diaspora and the homeland were further constrained by the two governments. After the Vietnam War, the United States had placed a strict embargo against Vietnam and prohibited any political or economic relations between the two countries. The Vietnamese refugees who sought to reconnect with their relatives in Vietnam had to rely on neutral third party countries to act as an intermediary in sending various goods and money back to needy family members.

For their part, the Communist regime also made it equally difficult for the relatives in Vietnam to receive. There were stringent inspections of packages as well as letters being sent to Vietnam and the Vietnamese government had later imposed heavy taxation on financial remittances, which discouraged money transfers through official channels.

Desperate to help close relatives left behind in their impoverished homeland, many Vietnamese Americans were forced to invent creative alternatives to formal remittances, such as hiding American dollars inside pill bottles that were being sent through either French or Canadian shipping companies according to a Yen Do, the creator of Nguoi Viet, the most prominent Vietnamese newspaper in the United States.

With tens of millions of Vietnamese starving in Vietnam despite the clandestine remittances being sent back, the Vietnamese government eventually realized that they had to either change their economic strategy or suffer the debilitating consequences of a continually declining economy.

This has played a critical role in reviving the economy. Last year alone the Diaspora sent an estimated \$7.2 billion into the country, according to the World Bank. This comprised about 7 percent of Vietnam's overall GDP in 2010. A 2010 study conducted by Wade Donald Pfau and Giang Thanh Long revealed that 57.7 percent of all international remittances being sent to Vietnam in 1997-98 came from the United States.

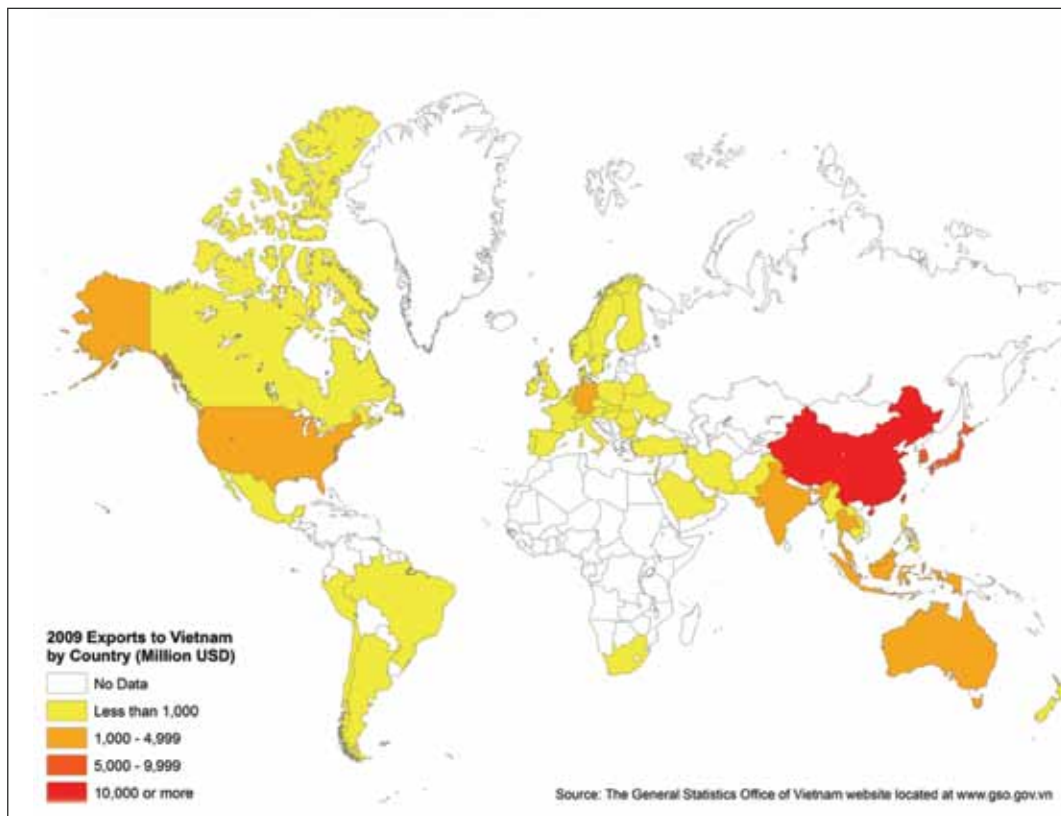
The growing symbiosis of Vietnam with its diaspora, particularly in the US, will shape the rapid development of the country. This parallels the roles played earlier by the Indian and Chinese diaspora in the development of their home countries over the past two decades.

Nowhere will this impact be felt more than in major cities such as Hanoi, Danang and especially Ho Chi Minh City (the former Saigon). *"We are seeing more of the expatriates here, and they are bringing management skill and capital through their family networks,"* notes economist Le Dang says. *"They are a key part of the changes here."*¹

THE RISE OF A NEW DRAGON

The integration of the Vietnamese world economy also benefited from the understanding of some key economic advisors to the Hanoi government that communism did not constitute "the wave of the future". Aware of the enormous progress being made in China with its liberalization, in 1986 the Vietnamese government made the crucial decision to begin the Renovation Process – also known as *Đổi Mới* – reform formerly closed the communist economy. It was the first official step that Vietnam had made towards opening its economic doors to the rest of the world.

With the collapse of the Berlin Wall in 1989 and the subsequent fall of other communist powers in the world, the United States eventually responded to the improved political relations with Vietnam by lifting the 20-year-old embargo against its former foe in 1995. This ultimately put Vietnam on the fast track toward economic liberalization and ultimately



2009 export
to Vietnam by
country (million
USD)

helped Vietnam transition from a developing country to a middle-income country with a GDP per capita of more than \$1,000. The International Monetary Fund estimated Vietnam's GDP per capita as \$1,155 for the 2010 fiscal year.

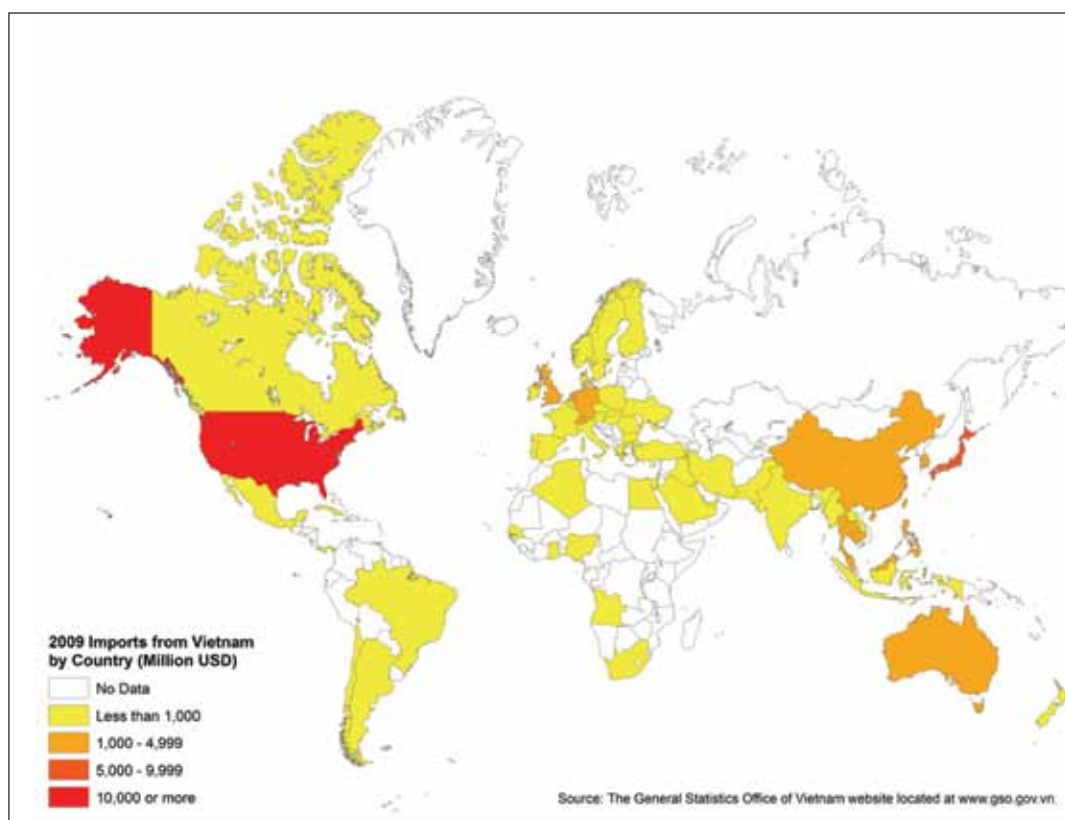
Yet in sharp contrast to China – where the largest sources of capital came from Chinese diaspora havens such Hong Kong, Taiwan and Singapore – most of the money that revived the economy came from outside Southeast Asia. In particular, the biggest investment turned out to be the old arch-enemy, the United States, followed by another former “imperialist” power, Japan. China, now the world's fourth largest foreign investor, lagged behind much smaller regional economies, including South Korea, Thailand, Malaysia as well as the Netherlands.

This is all the more remarkable given China's huge expansion of investment with other developing countries. Over the past decade China has expanded its capital flows both into other parts of Southeast Asia, including Laos and other Mekong Delta nations, as well as resource rich regions of the Middle East, Latin America, and Australia. Yet Vietnam, with its rich agriculture, fisheries and developing energy industry, has stayed largely outside the emerging Sinosphere.

TRADE WINDS

The tilt in investment also is borne out by trade patterns. Although Vietnam has also seen, like most other countries, a flood of Chinese goods but the country has also developed a strong appetite for exports from other countries, notably Japan, South Korea and the United States.

2009 imports from Vietnam by country (million USD)



But perhaps the best measure of Vietnam's emergence as an unChina can be seen in its own burgeoning exports, which increased from about \$5 billion to over \$70 billion over the past three decades. The United States has emerged as by far Vietnam's largest market, with over \$10 billion in annual trade. Japan ranked a strong second, with China lagging behind.

This is all the more remarkable given that Vietnam possesses many things China needs and the two countries share both a border and obedience, at least nominally, to the same ideology. Vietnam appears to be clearly making a choice to diversify itself away from China and avoid the semi-colonial status that many of its neighbours, notably Cambodia, Laos and Burma, seem to have tacitly accepted.

This rising engagement with the global economy has brought great benefits. According to the CIA World Factbook, the country's poverty rate has dropped from 75% in the 1980s to 10.6% of the population in 2010. In terms of economic output, a brief on Vietnam by the World Bank reported that between the years 1995 and 2005 real GDP increased by 7.3% per year and per capita income by 6.2% per year.

WHY VIETNAM MATTERS TO AMERICA

Hanoi today – and even more so Ho Chi Minh City, the former Saigon – recalls China in the 1980s. But there are crucial differences. State-owned companies in Vietnam lack the depth and critical mass of their Chinese counterparts, for example and are thus less likely to pose an immediate competitive threat to US and other foreign countries.

Still, this is clearly a country on the way up. Of course, many rural residents – still roughly 70% of the population – continue to pour into Hanoi and other cities, but without the

same desperation that characterizes, for example, people moving from Bihar to New Dehli or Mumbai. There is nothing of the kind of criminal elements that fester in the favelas of Brazil or Mexico City colonias.

More important still are the “animal spirits” of the place. Adam Smith – or Jane Jacobs for that matter – would enjoy the very un-socialistic frenzy, motorcyclists barrel down the streets like possessed demons, with little regard to walking lanes or lights. Everyone not on the government payroll seems to have hustle, or is looking for one. It reminds one of nothing more than the Vietnamese outposts in Orange County, Calif., or in Los Angeles’ Chinatown, which is now largely dominated by Chinese from Vietnam.

Le Dang Doanh, one of the architects of Đoi Moi, estimates the private sector now accounts for 40% of the country’s GDP, up from virtually zero. But Le Dang estimated as much as 20% more occurs in the “underground” economy where cash – particularly US dollars – reigns as king.²

“You see firms with as many as 300 workers that are not registered,” the sprightly, bespectacled 69-year-old economist explains. *“The motive force is underground. You walk along the street. I followed an electrical cable once and it led me to a factory with 27 workers making Honda parts and it was totally off the system.”*

This energy is in part of product of demographics. Most of the people you see in these unofficial workshops are in the 20s and 30s. And unlike what you see in China, these workers also have children, a species increasingly scarce not only in Japan but also in virtually all the Chinese-descended countries of the region. Vietnam may be modernizing and getting richer, but it also enjoys a growing population.

These trends have enormous long-term consequences. According to the CIA World Factbook, 69.3 percent of the approximately 91 million people in Vietnam are currently between the working ages of 15 and 64. In the next four decades the Vietnamese workforce is expected to expand rapidly, while beginning to contract dramatically first in Japan but eventually in Taiwan, Singapore, South Korea and China itself. As these countries amble into what American Enterprise Institute demographer Nick Eberstadt has called a “fertility implosion”³ that will lead to a rapid aging of the workforce, Vietnam will remain relatively young.

Already this enormous source of cheap labour has compelled investors around the world to look toward Vietnam as a way to simultaneously cut costs and increase profits. But more important still is the rapid growth of education. The country enjoys nearly 95% literacy.

This combination of a growing and skilled workforce represents the same combination of factors that previously led to rapid growth in other Asian countries, from Japan in the 1960s to South Korea and Taiwan in the 1980s and China more recently. One local investment house, Indochina Capital, estimates that by 2050 Vietnam’s economy will be the world’s 14th largest – ahead of Canada, Italy, South Korea and Spain.⁴

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The maps were prepared for the Legatum Institute by Ali Modarres, Chairman of the Geography Department, California State University at Los Angeles.



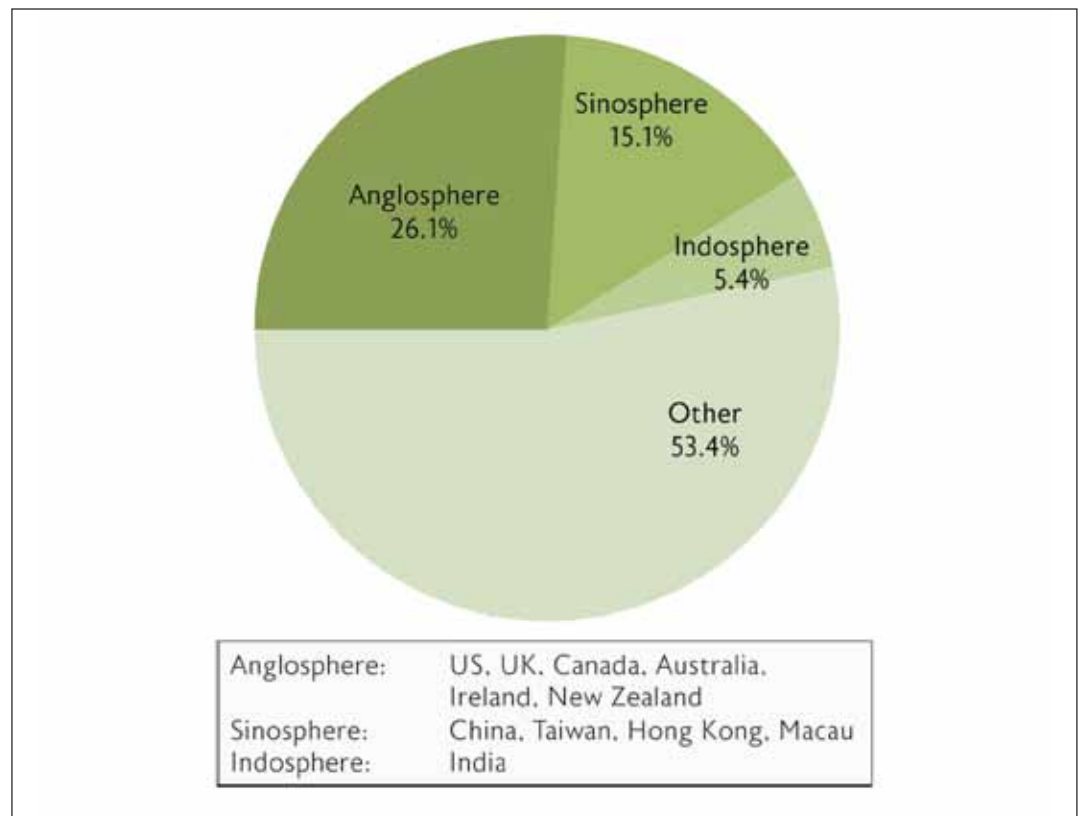
THE ANGLOSPHERE: WE ARE NOT DEAD YET

By Joel Kotkin and Shashi Parulekar

These are not the happiest of times in the English speaking world. At the centre of the world financial crisis, the countries of the Anglosphere – including Australia, Canada and New Zealand – have all suffered from the world economic recession, although most grievously in the two most populous countries, the United States and the United Kingdom.

Confidence about the future has plummeted, particularly in the United Kingdom where the Bank of England predicts that the standard of living will plunge at the fastest rate since the 1920s. Not surprisingly, barely one in six expects their conditions to improve over the next year.¹ In Canada, which has been lightly impacted by the global recession, twice as many people believe things are worse compared to twenty years ago.² And in the Anglosphere's largest country, the United States, optimism stands at the lowest levels in a generation, with roughly, according to a Ipsos Mori poll, 73% seeing the country headed in the wrong direction.³

Anglosphere,
Sinosphere and
Indosphere:
Share of World
GDP: 2010 (PPP)

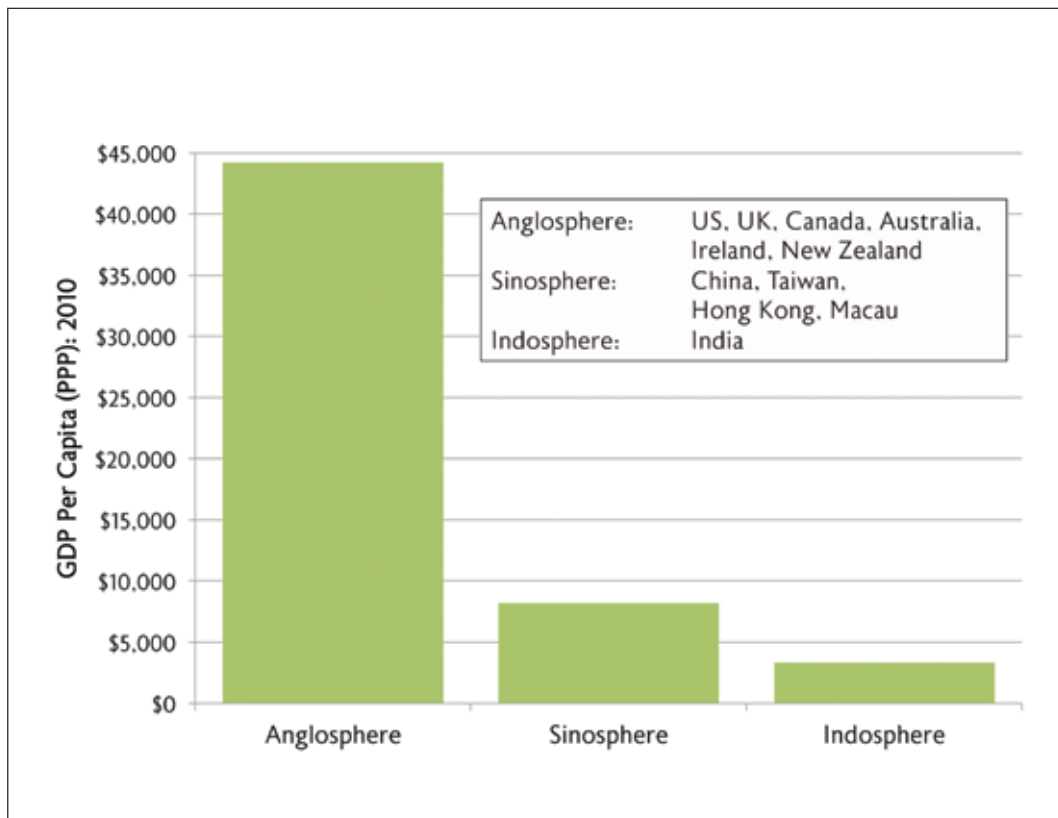


Amidst this gloom, it is easy to see why many commentators see the Anglosphere in deep decline. China, India, Brazil and even Russia are all seen as ascendant on the world stage, while the United States, Great Britain and their traditional allies are largely written off as powers of the past.

Even the healthiest economies in the Anglosphere, such as Australia, have become increasingly dependent on exports to developing countries, notably China. “We are to be attendants to an emerging empire: providers of food, energy, resources, commodities and suppliers of services such as education, tourism, gambling and games, health (perhaps), and lifestyle property,” predicts *The Australian’s* Bernard Salt.⁴

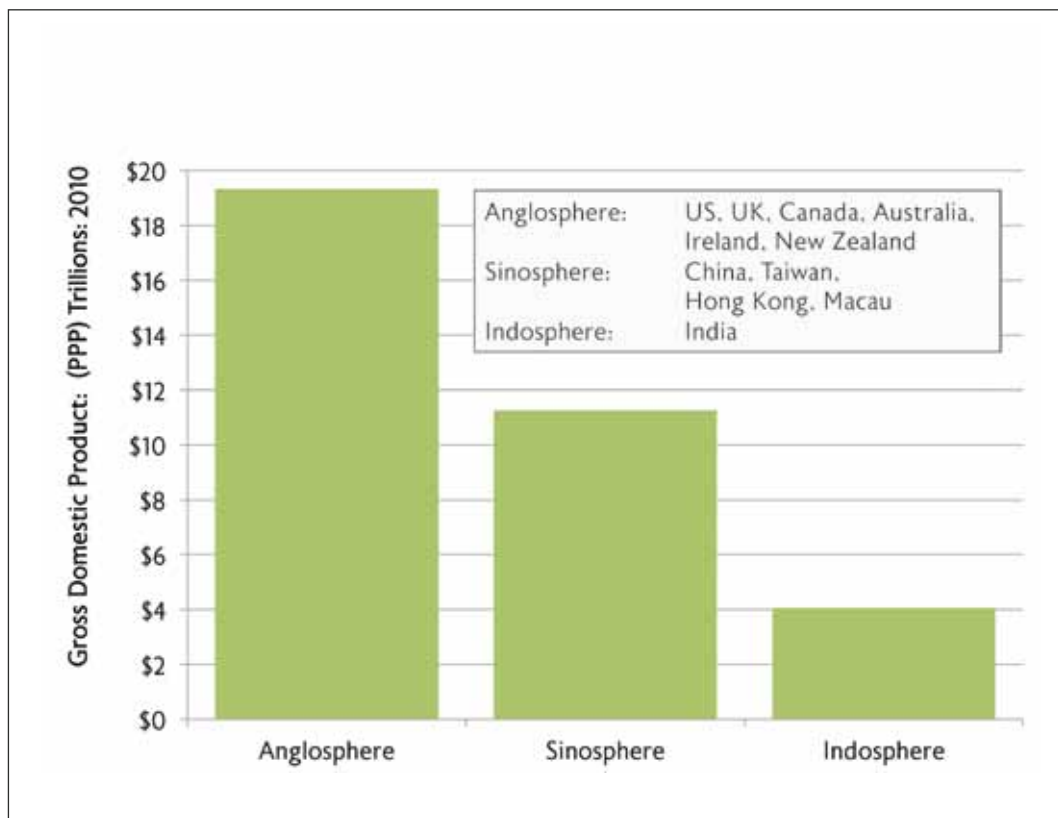
THE ANGLOSPHERE IS STILL THE WORLD’S #1 ECONOMIC SUPERPOWER

Clearly, the spheres of Chinese and Indian influence are expanding rapidly throughout the planet. The era of unipolar domination by the United States and its key allies — which dates from the fall of the Soviet Union — has come to an end. Yet despite this, the core Anglosphere remains by far the largest cohesive economic bloc in the world. Overall it accounts for more than 18 trillion dollars, one quarter of the world’s GDP, far more than any other cohesive global grouping.



Anglosphere,
Sinosphere
and Indosphere

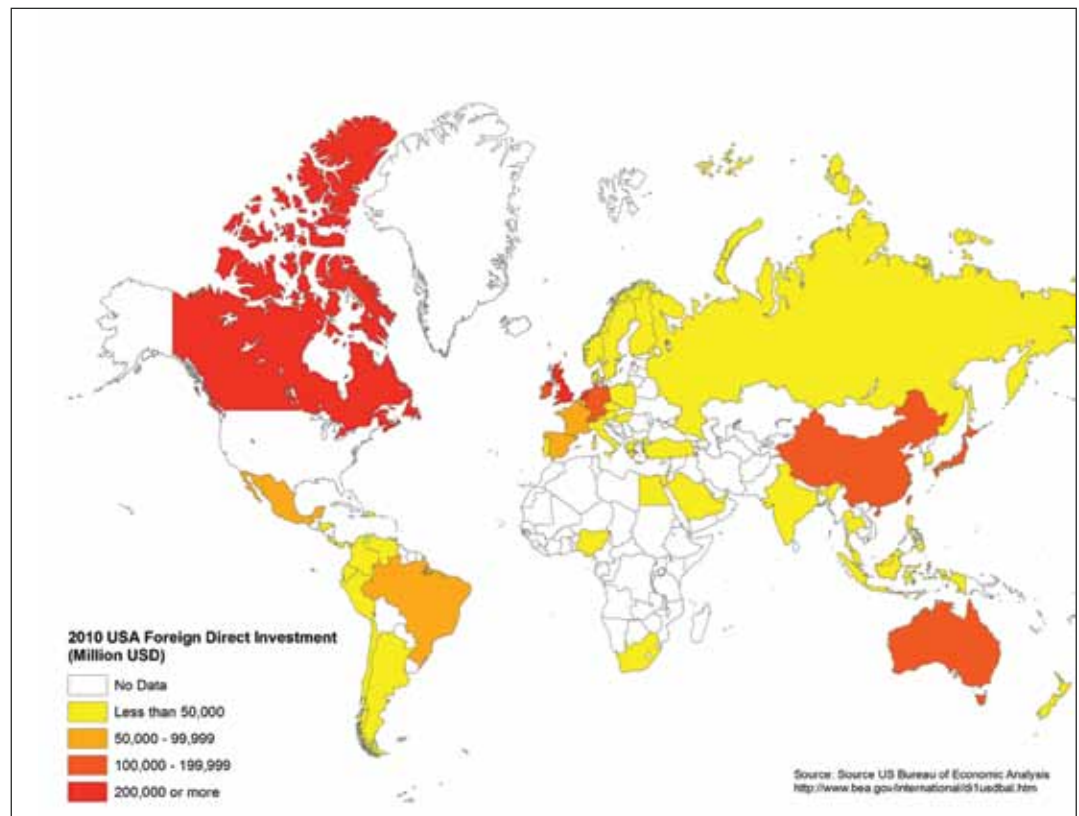
GDP per capita
2010 (Purchasing
Power Parity)



Anglosphere,
Sinosphere
and Indosphere

GDP: 2010
(Purchasing
Power Parity)

2010 USA Foreign Direct Investment (Million USD)

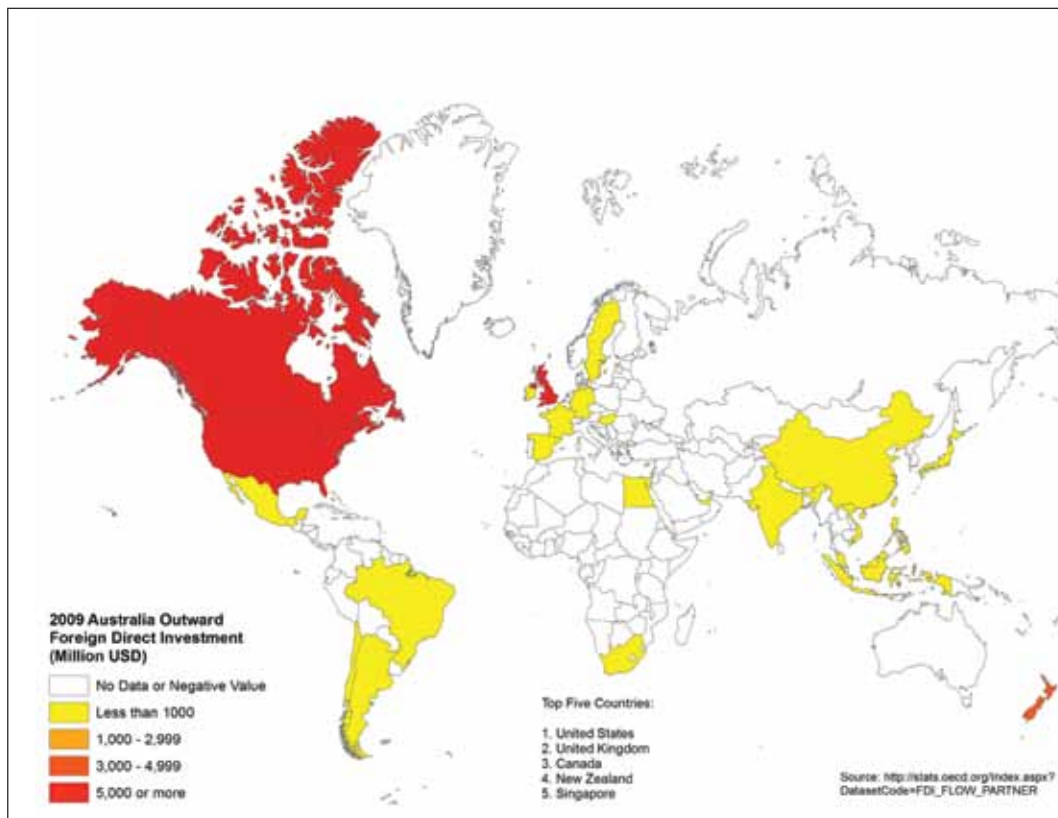


In contrast, the Sinosphere accounts for roughly of 15 percent of global GDP and the Indian sphere some 5.4 percent. Anglosphere residents do even better on a per capita purchasing power basis, with a per capita GDP of nearly \$45,000, more than four times that of the Sinosphere and ten times that of the Indian sphere.

The origins of the Anglosphere lie with the globe-girdling British Empire, which in 1922 contained 458 million people (about one fourth of world population at the time), and covered almost 13 million square miles, nearly one fourth of earth's total land area.⁵

Today, the Anglosphere is predominately a union of language, culture and shared values. The USA, the United Kingdom, Ireland, Canada, Australia and New Zealand overall boast a population of roughly 400 million, three quarters of whom live in the United States. They retain close ties with each other both culturally and economically. A look at the foreign direct investment of the United States, for example, shows a powerful tilt towards Anglosphere countries, notably the United Kingdom and Canada.

Much the same can be said for Australia, an Anglosphere core country whose economic future might seem to lie with the Asian economic superpowers. But Australia's overseas investment tilts heavily towards Anglophone countries, notably the United Kingdom, the United States, Canada, neighbouring New Zealand and the non-core but English dominant Republic of Singapore.



2009 Australia Outward Foreign Direct Investment (Million USD)

THE LINGUISTIC EMPIRE

The English language is a powerful weapon. It reaches to a host of key developing countries such as Nigeria, Pakistan, South Africa, Kenya, Malaysia and, most importantly, India. Overall, the British Commonwealth easily exceeds 2.1 billion, even excluding the presence of the core countries.⁶

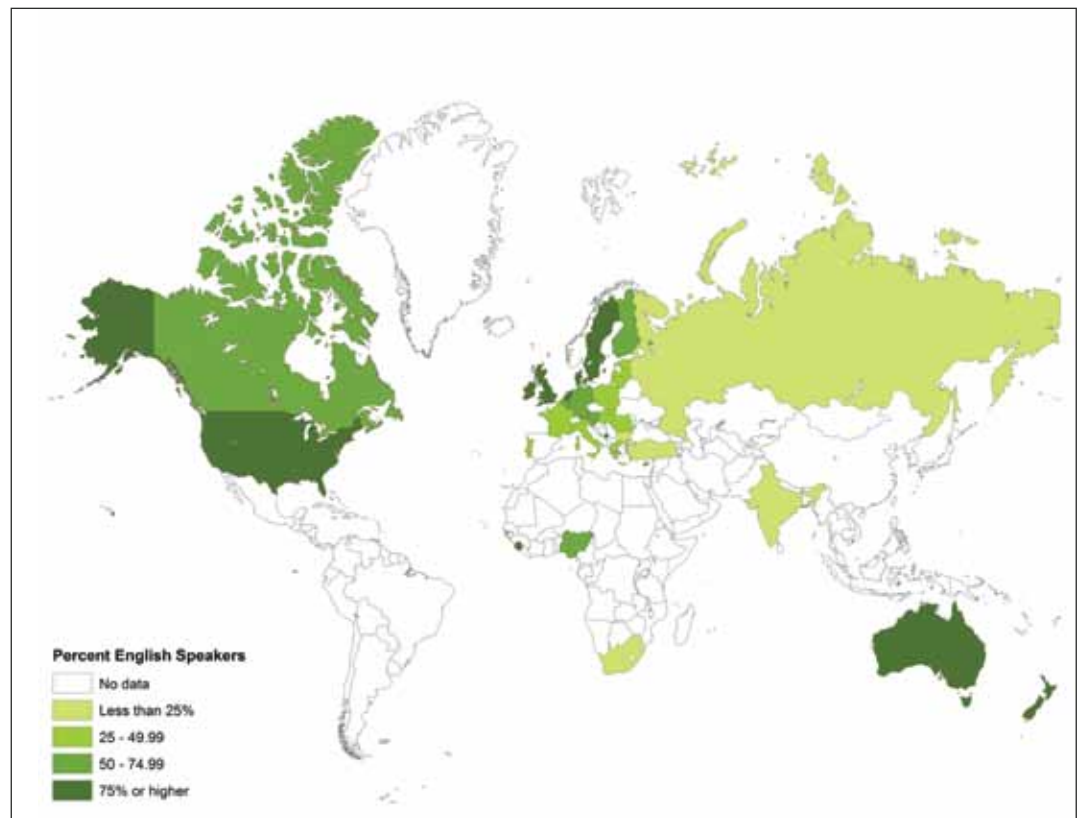
Since the Second World War, English has replaced French, Russian, and German as the primary language of business and science. The EU was constructed largely by French visionaries, but English is spoken by 41% of Europeans, while only 19% are Francophone.⁷

Even former colony Algeria has recently begun closing French schools across the country, as Arabic and English become the standard. Recently, the president of Rwanda has pushed for abandoning French in favour of English, due to its relevancy.⁸

And, like fellow its fellow Arab countries, Lebanon has been shucking off French in favour of English. In Vietnam, students have even been known to protest learning French, stressing the need to learn English instead.⁹

The ascendancy of English in Asia all but cements its status as the world's 'world language'. According to *The Economist*, "Today the Chinese are obsessed with English... up to a fifth of the population is learning the language." Former British Prime Minister Gordon Brown estimates that within two decades the number of Chinese who speak English will outnumber native English speakers throughout the rest of the world.¹⁰

Percent English Speakers



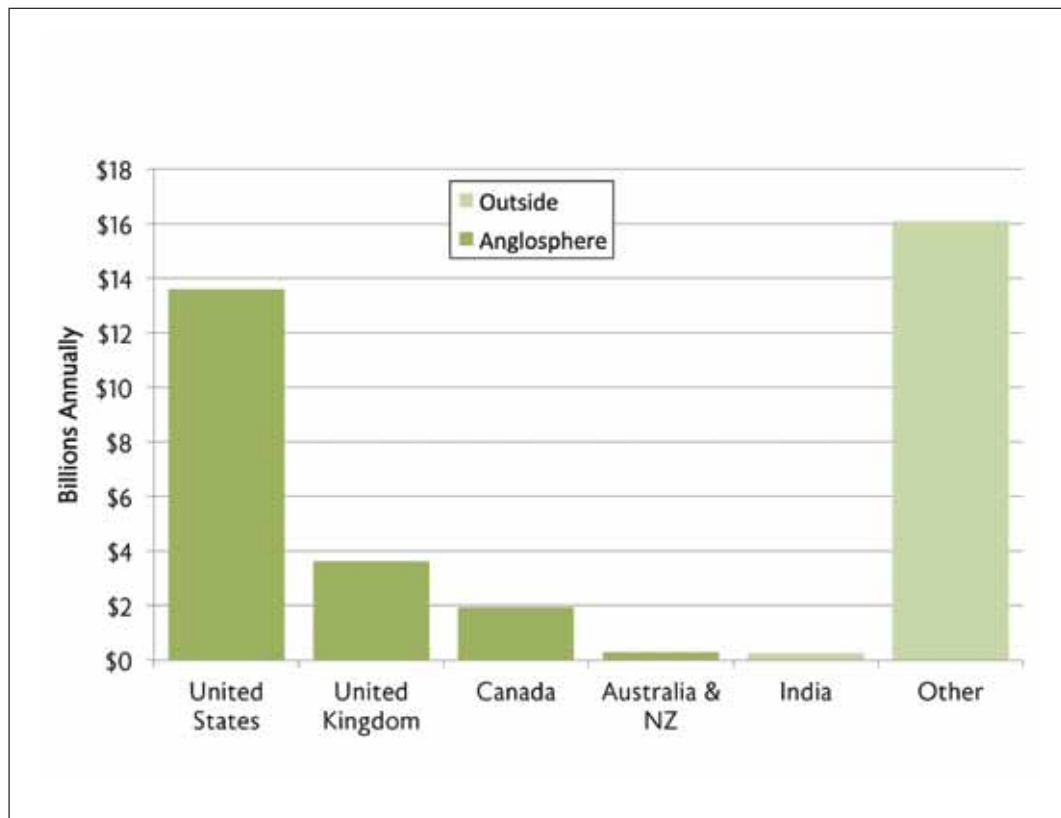
Critically, English is already a dominant language in the other emerging global superpower, India. Today, 125 million Indians speak English. Due to the fact that there is no one dominant indigenous language — its largest language, Hindi, is spoken by less than 350 million Indians out of 1.2 Billion — English has become a vehicle for the middle and upper-classes to communicate with other members of the same class across regional boundaries.

In some Asian countries, notably the Philippines and Singapore, most educated people are English fluent. In many other countries, such as Malaysia, English is not spoken by a majority, but remains the dominant language of business, technology and even politics.¹¹

THE CULTURAL EMPIRE

Perhaps the essence of the Anglosphere's influence is cultural, and can be felt particularly through the media. As observed by Daniel Hannan of *The Daily Telegraph*, every three to five years India's vibrant English media is growing as the middle class expands.¹² As of last count, *Times of India*, the largest circulation daily newspaper in the world, exceeds the *Wall Street Journal*, the *New York Times* and *USA Today*. India has three English language papers with paid circulation of over one million: *Times of India*, *The Hindu*, and *Hindustan Times*.¹³

But it is primarily in the audio-visual media where the Anglosphere wields particular influence. In terms of total sales of media, movies, television and music there is simply no major competitor on a global level. Overall, the cultural exports of the United States, the United Kingdom, Canada and Australia constitute a majority of all audio visual sales,



Exports: Audio, Visual and Related Services Anglosphere and Other: 2008

Source: World Trade Organization, US Department of Commerce, British Film Institute, Communications Chambers (UK), Telefilm Canada, International Business Development/India:

Estimates of Zina Klapper

easily dwarfing both the old industries of countries such as France and Germany, as well as those rising from the developing world such as Brazil and India.

These cultural exports are not limited either to English speaking or high-income countries. Increasingly, the exports of Hollywood and other Anglosphere countries, are growing mostly in developing countries. In 2010, box office revenues were flat in the United States and Canada, but grew 25% in Latin America, while the Asia Pacific region increased by 21 percent, with China alone accounting for 40% of that region's box office. Anglophone predominance could also be seen in the music business, with Americans Eminem, Lady Gaga and Taylor Swift, along with the UK's Susan Boyle, dominating the tops of the charts.¹⁴

THE SCIENTIFIC EMPIRE

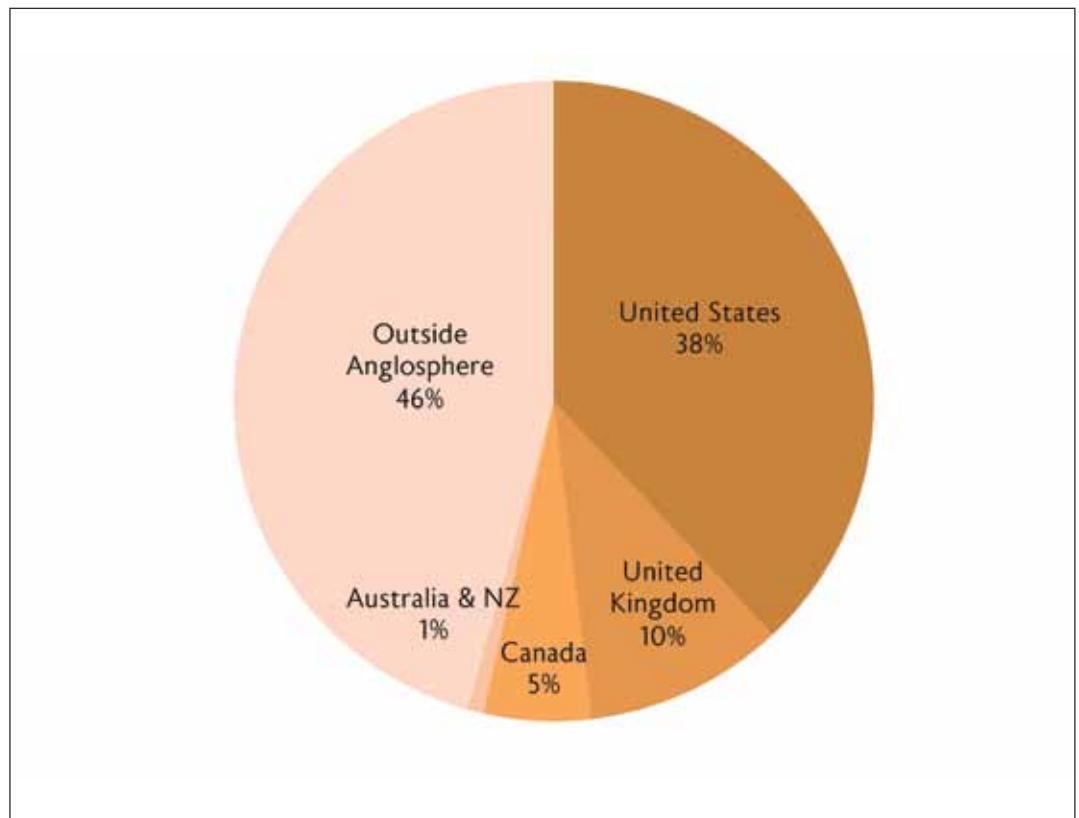
Perhaps even more important is the Anglosphere power in technology. In published technical articles, for example, the United States alone produces three times as many as second place Japan. The United Kingdom ranks third, ahead of Germany, while Canada ranks seventh, equal to Italy and ahead of Spain. Altogether the Anglosphere accounts for more than half all the roughly 600,000 technical papers published every year.¹⁵

This preeminence is reflected in business. The vast majority of the world's leading software, biotechnology and aerospace firms are concentrated in English-speaking countries. Britain and America alone account for nearly three fifths of the world global pharmaceutical research spending.¹⁶

Exports: Audio, Visual and Related Services Anglosphere and Other: 2008

Source:
World Trade
Organization, US
Department of
Commerce, British
Film Institute,
Communications
Chambers (UK),
Telefilm Canada,
International
Business
Development/India:

Estimates of Zina
Klapper



Particularly revealing has been the composition of the critical software industry. A review of the top 500 software companies in the world shows over 450 of them based in Anglosphere countries, mainly the USA. Nine of the top 10 companies are US-based as well. But the industry is strong in another three English speaking countries: Canada, the UK and India.¹⁷

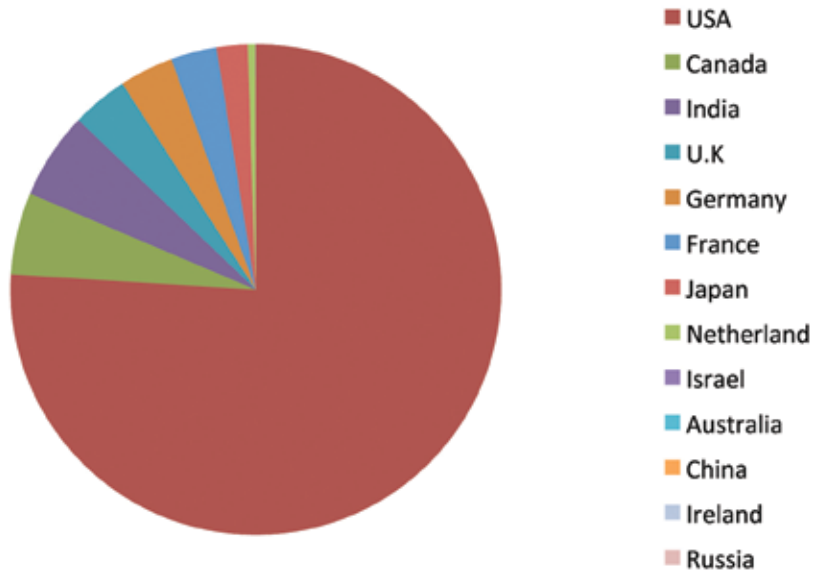
THE FUTURE OF THE ANGLOSPHERE

In a globalizing world, with an increased emphasis on technology, the Anglosphere should be well-positioned. In addition, the region's demographic profile, while clearly aging, is not nearly as stagnant as its main historic rivals in Europe, notably Germany and Italy, or as Russia or many east Asian countries.

Over time, this could be a major advantage for the Anglosphere. Between 1980 and 2010 the population of the United States expanded by 75 million to over 300 million, while Canada nearly doubled from 18 to 34 million, and Australia expanded from 13 to 22 million. In contrast, the populations of Russia and Japan have started to drop, and in some European countries, such as Germany, population has remained stagnant. The Anglosphere may be getting older, but it is doing so at not nearly as rapid a pace as its major competitors.¹⁸

Immigration may prove the most critical challenge and long-term advantage for the Anglosphere. The great success of the Anglosphere lies increasingly in its ability to incorporate other cultures. Fourteen million people immigrated to Anglosphere countries over the last decade;¹⁹ in 2005 the United States swore in more new citizens than the next nine countries put together, the vast majority from outside the Anglosphere.²⁰

World Sales of Software

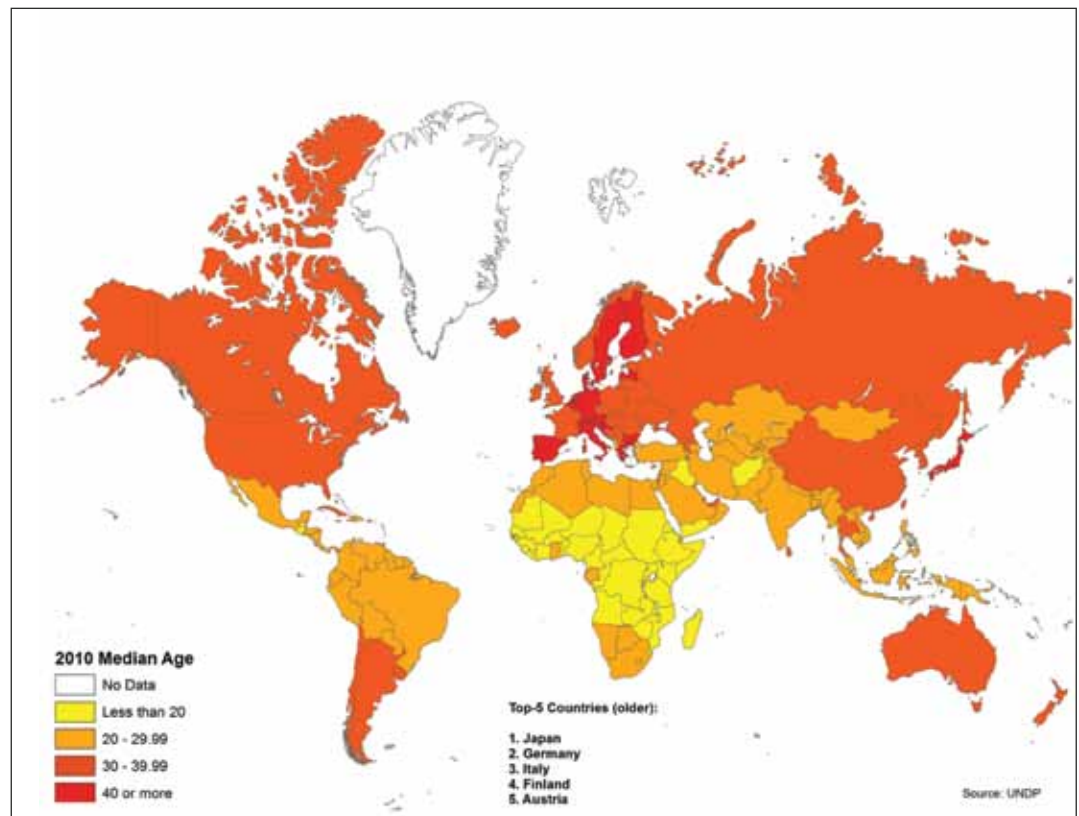


This tilt is particularly felt among the educated. Overall, roughly three-quarters of foreign students attend classes in Anglophone countries.²¹ Perhaps equally important, many significant German institutes and many in China have adopted English as the primary language of instruction, particularly in technology.²²

In these tough times, increasing numbers of these students may be returning home,²³ but the United States and the other Anglosphere countries continue to dominate the list of destinations for skilled workers. More than half of all the world's skilled worker immigrants come to the United States; on a per capita basis, this migration is even more prevalent in Australia and Canada.²⁴

Immigrants are attracted not only by opportunity, but by stable institutions and rule of law. The stunning lack of these structures are among the key reasons why many of China's new crop of billionaires seek to immigrate to the United States, Canada, and Australia. The particulars vary: to protect property, to have a second child, or just to live a freer life. Indeed, among the 20,000 Chinese with incomes over 100 million Yuan (\$15 million), 27 percent have already emigrated and another 47 percent have said they were considering it, according to a report by China Merchants Bank and US consultants Bain & Co. published in April.²⁵

2010 Median Age



Often overlooked, the Anglosphere countries outside of the United Kingdom are resource rich. All three have rich mineral and energy reserves. North America is a major hotspot for new oil and natural gas findings. These countries also predominate among the world's net food exporters, an increasingly critical strategic advantage. The Anglosphere countries, which boasts four of the world's eight largest agricultural exporters, had total net exports of around \$70 billion in 2010.²⁶

Of course, the Anglosphere is well past the heroic era of Elizabeth I, Sir Francis Drake, Clive of India, Disraeli, Washington, Lincoln, or either of the Roosevelts. But, like the Roman Empire which survived for hundreds of years after the Augustan golden age, the Anglosphere is not close to its demise. After all, if Rome could come back from Caligula and Nero, the Anglosphere should be able to persist after George Bush and Barack Obama.

And if, or maybe even when, the Sinosphere or India rise to the technological and material wealth of the Anglos, they still are likely to be using a language and economic and legal conventions developed by the English-speaking countries. Although no longer a hegemon of the world, the Anglosphere will likely remain a primary crucible of global commerce, culture and technology well into the 21st Century.

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WOMEN'S MAPS

By Zina Klapper

The rise of women as a major social, political and economic force has been one of the signature developments of recent history. But for the most part, this ascendancy has been limited largely to the developed world.

Yet during the twenty-first century, we are seeing the emergence of a different arc: the enormous worldwide successes of the women's movement that has flourished in the developed world – particularly in the English-speaking and Nordic countries – along with more widespread global wealth. The effects are not so visible in the very poorest places, but they are striking in the fast-growing, developing countries. In the coming years, the combined impact of growing gender equality and the enlargement of the middle class will be seen most clearly in rising countries that include Brazil, India, Vietnam, and the Philippines.¹

THE ASCENT OF WOMEN IN THE GLOBAL ECONOMY

One place where this is most evident is in the economic sphere. Worldwide total income of women today is \$10.5 trillion, less than half that of men;² the latest measurement shows that women hold just 1% of the world's wealth.³

But this share is only now expanding in the developing countries. Some of this is the result of what has driven entrepreneurship through history: hardship. The vast majority of women employed by corporations work at the very lowest levels. Many more participate in the informal economy, chained to street vending, home crafts, and subsistence agriculture, with even farming increasingly becoming the realm of older women, as young females and males pursue paid opportunities.

Yet if there is a clear sign of female economic ascendancy, it is the rise of women as business owners, most importantly in developing countries, which will be a vital indicator of increased economic power.

Like their male counterparts, some nascent female entrepreneurs chose this path as an opportunity to maximize income. But many others came to start businesses by necessity, since conventional employment opportunities were not open to them. Ironically, these impediments have within them the seeds of growth. Locked out of the better parts of the job market, and facing many cultural barriers, women are starting business at a rapid rate in places such as Latin America, India, and East Asia, and even in Africa and Central Europe.

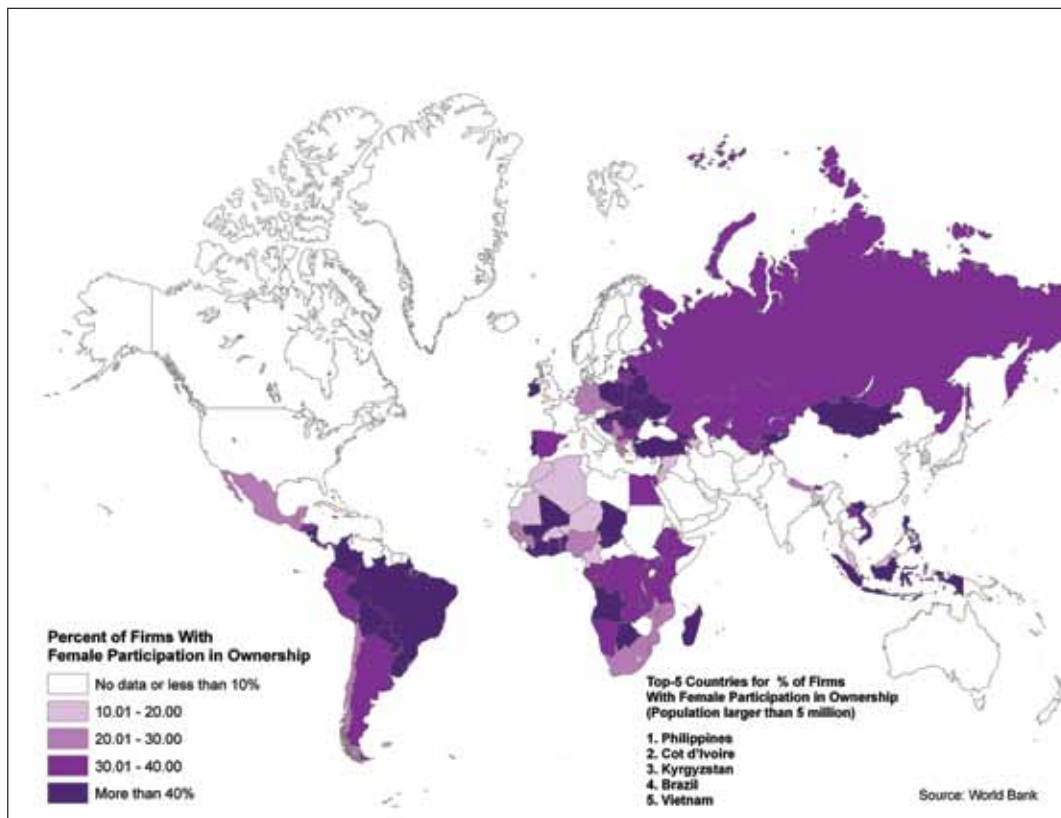
In contrast, female entrepreneurship rates are problematic in the most advanced countries. Percentages are inching downwards in the US,⁴ and rising so slowly in Europe that the EU, and, individually, Spain, Latvia, the UK and Finland, have created initiatives to spur growth; Austria and the Netherlands have been prompted to make groundbreaking special provisions for women entrepreneurs who require maternity, family or sick leave.⁵

Indeed, business ownership in the developed world is taking a backseat to new opportunities for a generation of women, considerably more educated than their mothers, who are penetrating both the mid-level job market and the highest corporate tiers. These changes have been accelerated by shifts in the nature of employment that favour 'brains' and collaborative skills over 'brawn'. Women have taken an increasing share of service sector jobs, just as that sector's importance has increased.

THE RISE OF THE FEMALE ENTREPRENEUR

We looked at measures of females who are nascent entrepreneurs or owner-managers of new businesses, at the ratio of females to males for new businesses, and at the percentage of firms with female participation in ownership across the globe. Together, female entrepreneurs are increasing most impressively in the developing world, with multiple instances of rising countries that surpassed G-7 nations in business start-ups by women.

Latin America is a premiere example of the rise of female business ownership, with Brazil and Costa Rica looking the most muscular. The region also stands out for its small gender gap in new businesses. This marker shows how well the cultural climate allows women to reach for parity with men in entrepreneurship. Among the top fifteen countries with the greatest equality between women and men in establishing new ventures, Global Entrepreneurship Monitor⁶ included Brazil and Peru (where the gap was smaller than in the US or anywhere in Europe), Venezuela, Columbia, Argentina and Chile. Women are also



Percent of firms with female participation in ownership

(NB: Canada was not included)

competing well on this front in the nearby Caribbean, notably in the Dominican Republic, Puerto Rico, and Jamaica.

Across the globe, the same trend is emerging in Asia. Asian women often face grim financial realities, with South Asia remaining the world's stronghold of women in unpaid family work or lowest-end self employment. Despite this – or perhaps because of it – female entrepreneurs in India, South Asia's bright spot, and in Vietnam, The Philippines, and Thailand are in the vanguard of the world's self-starting women. In fast growing Vietnam, for example, an estimated 24% of the 100,000-plus incorporated enterprises are owned by women; another 27% of its three million household businesses are also female-owned.⁷

In Japan, a country not known for its egalitarian spirit, social exclusion may explain why this is the world's only nation where the percentage of female entrepreneurs, at more than 13%, edges out that of males.⁸ And the rate of female private business owners in China is at 11 out of 100, higher than the world average.⁹

The news certainly is not uniformly good across the developing world. Eurasia shows a mixed picture for female entrepreneurs. By some counts, nearly 30 percent of Eurasian entrepreneurs are women: The Russian Federation, Kazakhstan and Belarus, for example, are seeing a significant amount of female entrepreneurial activity.¹⁰ But small businesses run by female household heads in Eurasia tend to stay small.

In the Eurasian heartland, much of activity has come about as a result of national tragedy and political dislocation following the fall of the Soviet Union. In many places, particularly in what were formerly the western parts of the Soviet Union, this has led to the migration of men abroad. The increase in households headed by women is notable throughout Tajikistan, Uzbekistan, Turkmenistan, Azerbaijan, and Georgia, with cultural and religious pressures keeping these female breadwinners marginalised in – or excluded from – the job market.

Central and Eastern Europe, too, have seen rises in female entrepreneurial activity, but the outlook for these women as an economic force of the future is also not as promising as it could be. For example, 20% of Slovenia's entrepreneurs are female,¹¹ and the number of young women starting businesses has grown rapidly over the last several years.¹² But the Center for International Private Enterprise reports that, at least for now, the region's young, educated women greatly prefer work in the public sector to starting a business, and that the cultural pressure to exclude women from participation in the economy is "stronger now than it was during the communist regime, where the quota system enabled many women to take on administrative and decision-making positions outside the home."¹³

Data on women in African economies is sparse, with the positive news focused on Lesotho (ranked highly in economic opportunity for women by the World Economic Forum)¹⁴, and, not surprisingly, South Africa, the continent's most developed nation. Côte d'Ivoire and Ghana have also drawn attention. Micro-financiers, development NGOs, and the UN have been assisting small-scale women entrepreneurs in, among other African nations, Kenya, to establish micro industries such as processing soap, fruit, and maize. But even in the most developed regions, African female self-employment tends to mean domestic work, crafts, and hawking, all of which are across a substantial divide from entrepreneurship.

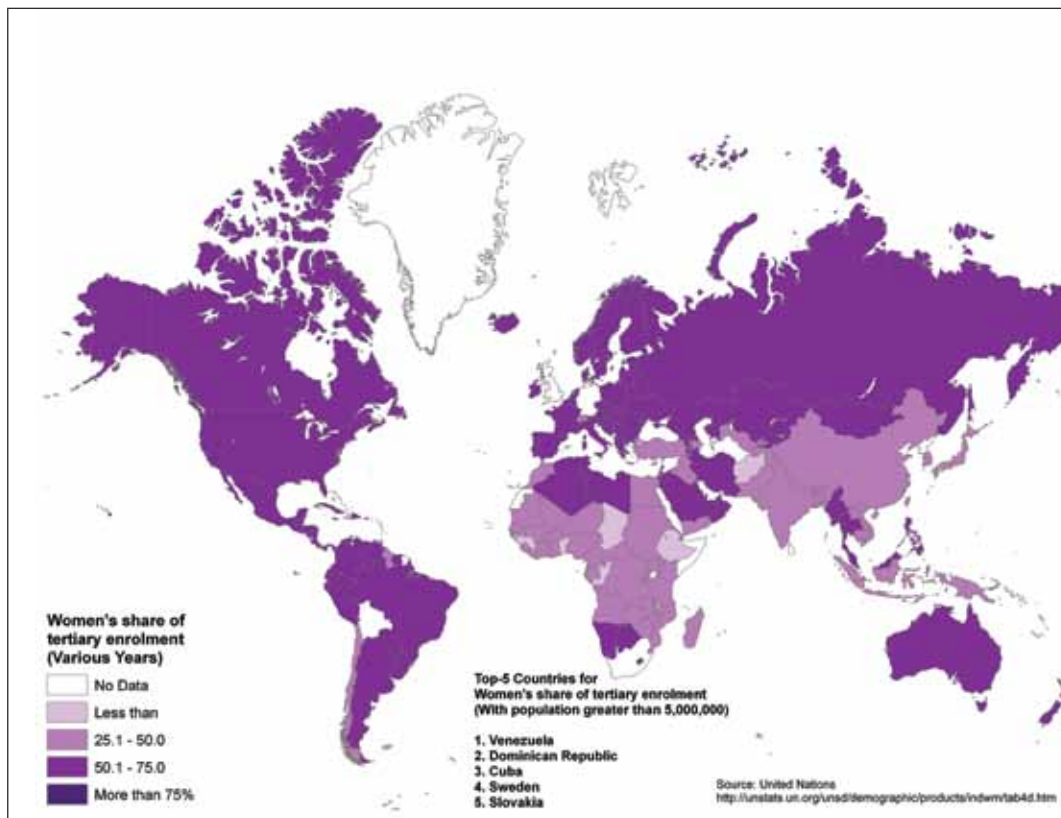
This doesn't mean that African women aren't poised to rise. Their gains are more visible in a sphere that is key to their future earnings: education.

EDUCATED WOMEN ON THE FRONT LINES

Just as we've seen a surge from poverty into the middle class in key developing nations, a parallel movement has taken place in education. Look closely at the dramatic map on this page measuring female enrolment in tertiary education. While the term's specific meaning varies with location, it refers to post-secondary education that includes vocational training beyond a high school.

Tertiary education can include technology institutes, polytechnics, and sometimes colleges and universities. In the map's dark locations women have reached parity – or beyond – with men; you can see at a glance that, in large portions of the globe, women's share of tertiary enrolment now surpasses that of men. Women exceed men in post-secondary education in most of South America, the Former Soviet Union, portions of Eastern and Central Europe, small scattered locations in Africa, and in significantly noticeable parts of South Asia.

African women are not generally approaching equality with men on this metric, although their strides have been remarkable: In some recent decades, the general expansion of tertiary education in Africa benefited women far more than men, and there are rays



Women's share of tertiary enrolment (various years)

of light: In Tunisia, for example, 59% of the 351,000 students enrolled in university in 2008 were women.¹⁵ But the catch-up factor has yet to be overcome. With low enrolment and high drop-out rates of girls at primary and secondary levels in the past, few female candidates have qualified to join tertiary schools.

If Africa follows the path of other developing countries, that will change. The World Bank's 2012 report¹⁶ shows that primary-education disparities between boys and girls have closed in almost all nations, including places where girls used to trail boys considerably.

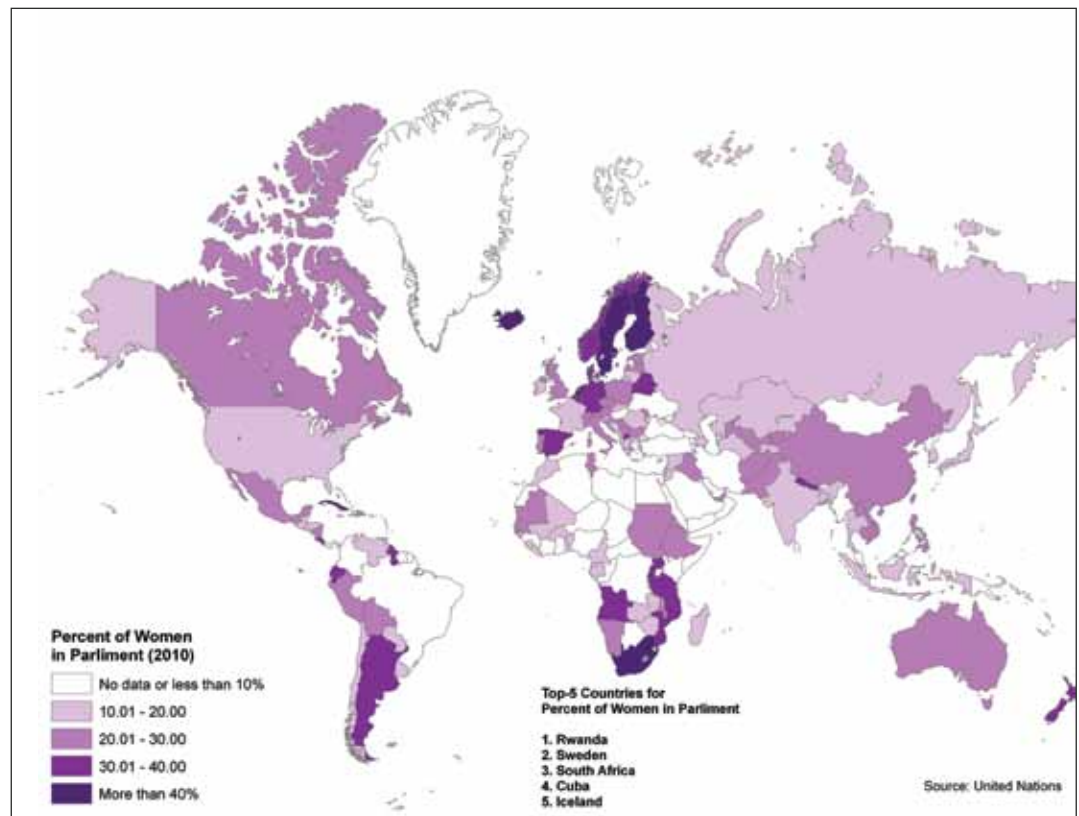
Educated women are no longer clustered only in North America, Western Europe, and Australia. The report states that tertiary enrolment growth is stronger for women than for men across the world. Girls outnumbered boys in one third of developing countries, including Bangladesh, Brazil, Honduras, Lesotho, Malaysia, Mongolia, and South Africa. Globally, between 1970 and 2008, the number of female tertiary students expanded by seventy million, compared to sixty million for boys.

THE LEGAL RIGHT TO WAGES AND ASSETS

Statisticians look at women's representation in national parliaments as a measure of their legal status because the two so often go hand-in-hand. While parity is acknowledged, even by its strongest advocates, to be only one aspect of legal equality, it does reflect a movement towards broader women's rights, political empowerment, property ownership, and to issues specific to women, such as domestic violence and female health.

The percentage of parliamentary seats held by women globally has risen considerably during the first decade of this century, and is now about 18%.¹⁷ As in entrepreneurship and education,

Percent of women in Parliament (2010)



the most dramatic gains now are not in the high-income countries but in the developing world, where sizable inroads to the very top tiers of government have also been made.

Latin America has become perhaps the most visible emblem of rising female political power sweeping across a region. Brazil recently joined Argentina, Costa Rica and, until early in 2010, Chile in having a woman president.

On a parliamentary level, mandated government seats, seen as temporary, play a major role worldwide. Right now, the United Nations reports, of the 29 countries that have broken the 30 % “critical mass mark” – nations where women have reached or exceeded 30% of federal representatives – 23 got there by using quotas.¹⁸

Some of the most dramatic changes in representation have taken place in Africa, where Rwanda now has the highest percentage of women in parliament and cabinet seats in the world. Each house is half women or more. South Africa, Angola, Mozambique, Uganda, and Tanzania are also in the small group of 29. Latin America, too, is a world leader for female political representation, with the 30%-plus tier including Costa Rica, Argentina, Ecuador, and Bolivia.

Developed areas – notably Scandinavia and Australia – are among those with the highest percentages of decision-making female politicians, and cultural ambassadors from these regions have actively nurtured worldwide suffrage and representation. But in the future, the standard bearers for female progress will be drawn not only from wealthy nations. Just as the destiny of the global economy can be seen in the rising countries of the developing world, so too can the future of female empowerment.

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SIX ADULTS AND ONE CHILD

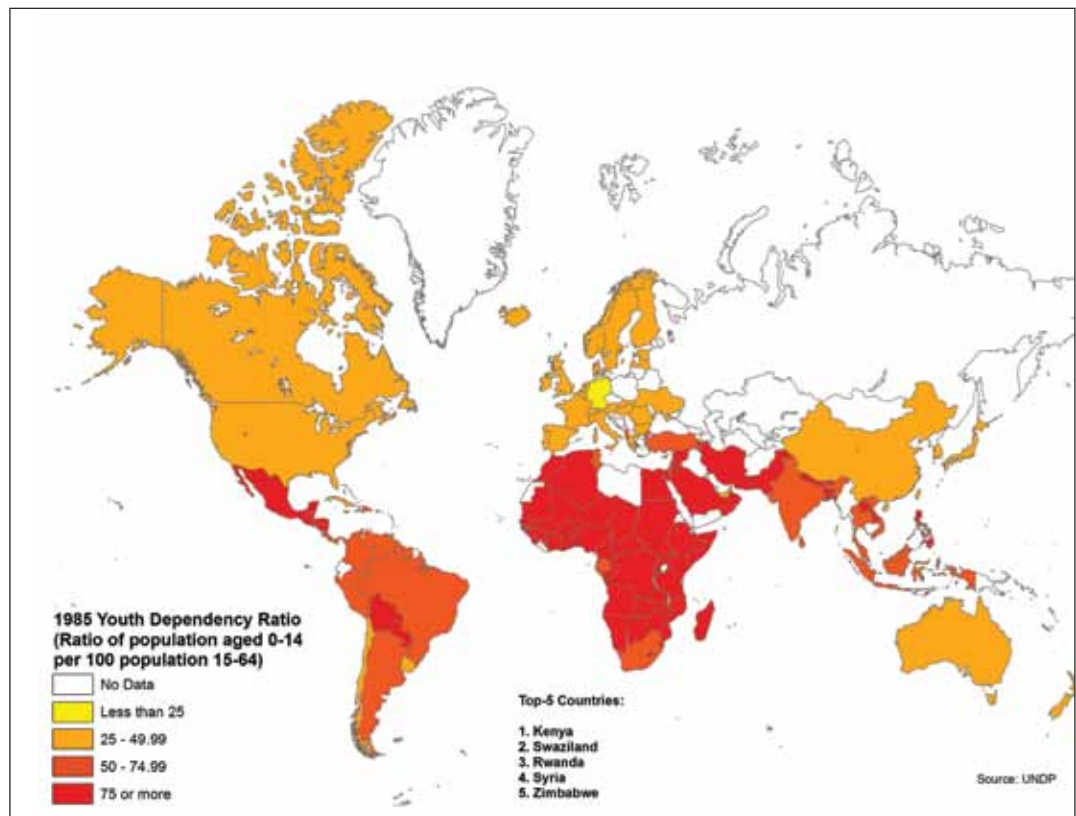
By Wendell Cox and Emma Chen

On a Saturday afternoon at The Bund, Xiao Ming (or “Little Ming”) clings tightly onto the hands of his paternal grandparents. His maternal grandparents walk slightly ahead, clearing a path for him in the midst of all the buzz and traffic. Retracing the imprints of their imaginary footsteps, Xiao Ming takes his first tentative steps as a three year old in town for the first time. Slightly behind him, the watchful eyes and ready hands of his own parents spur him on.¹

Xiao Ming’s personal parade epitomises the popular quip in Shanghai and across China, that “it takes six adults to raise one child”. These six individuals form the unspoken support structure of China’s youth: While the OECD points out that 80% of students in Shanghai attend after-school tutoring, it fails to capture the “soft factors” behind Shanghai’s top rankings in the Program for International Student Assessment (PISA). Popular Chinese dramas such as 房奴 (House Slave) depict this in meticulous detail: Grandparents spend hours brewing “brain tonics” for their grandchildren, and parents pack austere work lunchboxes to save up for their child’s tuition fees.

¹ Based on personal history of a co-author

Figure 1:
1985 Youth
Dependency
Ratio
(Ratio of
population aged
0-14 per 100
population 15-64)



LOW FERTILITY AND THE DEMOGRAPHIC DIVIDEND

Fifty-five years ago, China's fertility rate was 6.1. This had fallen to 1.8 in 2010. This means that in 1955, the typical female in China would have had, on average, six children during her productive life cycle; in 2010 she would have had less than two. If Xiao Ming were born in the 1950s, he would probably have had to vie for attention and resources with at least five other siblings. Today, he has the devoted attention and care of two generations before him. Overall, the number of Chinese under 14 has declined by 6.3 percent over the last decade.²

And to be sure there are short and medium term advantages to this situation. These anecdotal observations point to demographic trends that ultimately contribute to the optimal development of a nation's trajectory. Children may be a blessing, but in many cases too many of them overburden the working population. Indeed some describe this combination of low-fertility with a large workforce as the "demographic dividend".³

It is of little surprise that countries with a high Youth Dependency Ratios (children under 15 per 100 persons of working age, or 15 to 64) are less stable, and turn up as hotspots on the world map (Figures 1 & 2). Liberia for instance has a 5.1 percent annual natural population increase rate, 81 children per 100 of working age, and a fertility rate of 4.7. In contrast, prosperous Denmark has a 0.3 percent annual natural population increase rate, 28 children per 100 of working age and a fertility rate of 1.9.⁴

As population increases outpace economic opportunities and growth, nations at risk fail to accommodate new entrants into the workforce. In addition, caring for children requires a high proportion of resources, thus depressing the rate of economic growth.⁵

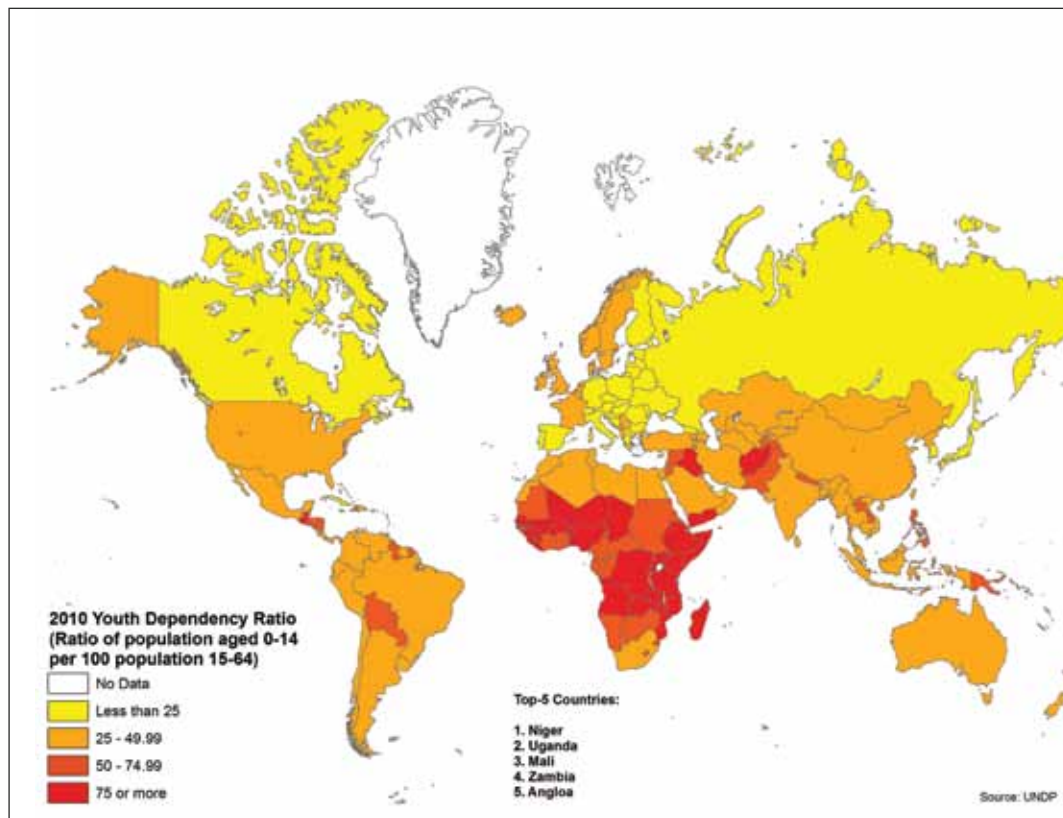


Figure 2:
2010 Youth
dependency ratio
(ratio of
population aged
0-14 per 100
population 15-64)

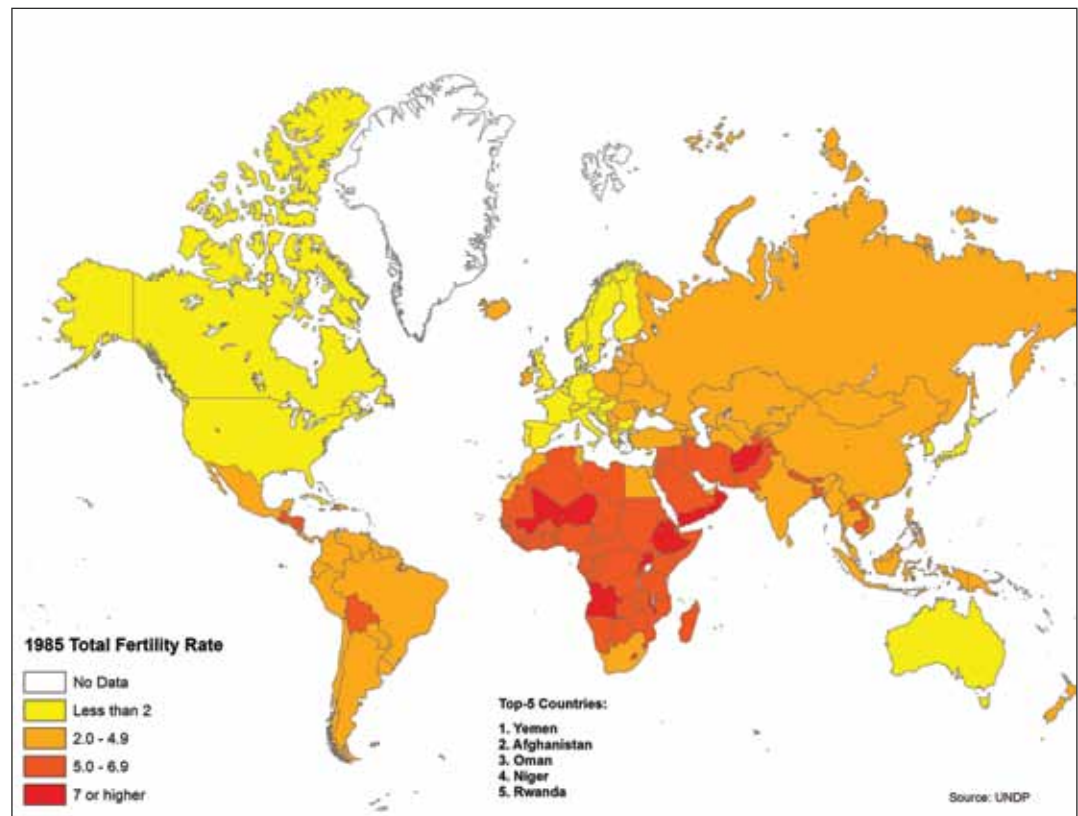
A low median age is thus a harbinger of impending stresses, where in extreme cases at least 50% of the population is below 20 years of age.⁶ In comparison, the median age of the developed world averages 30 – 40 years. This forms the foundational basis of several youth bulge studies of late, explaining demographic factors behind the Arab Spring,⁷ that was in part driven by massive increase in youth^{8, 9} and the youth workforce^{10, 11}, much of whom are unemployed and underemployed.¹²

THE FERTILITY IMPLOSION

Yet there is a distinct disadvantage as well to ever lower birthrates. Globally population growth rates are likely to continue dropping – to less than 0.8 percent worldwide by 2025 – largely due to an unanticipated drop in birthrates in developing countries such as Mexico and Iran. These declines are in part the result of increased urbanization, the education of women, and higher property prices. Already the global fertility rate, including the developing countries, has dropped in half to an estimated 2.5 today.¹³ Close to half the world's population lives, notes demographer Nicholas Eberstadt, in countries with below replacement rate birth-rates. The world, he suggests, is experiencing a “fertility implosion”.¹⁴

Like a population explosion, a demographic implosion has consequences. Countries that have previously engineered reductions in the fertility rates – Singapore¹⁵, Hong Kong¹⁶, Vietnam¹⁷, India¹⁸, and Indonesia¹⁸ – have done so to achieve more manageable economic conditions. Similar initiatives are being debated, even in the Philippines²⁰, where religious interpretations are being contested. China's “one child policy” represented just a more

**Figure 3:
1985 Total
Fertility Rate**



authoritarian expression of a widespread global process. Yet this process often includes many unintended and potentially damaging consequences. However, elsewhere, virtually the same results were replicated without government policy direction, such as in Brazil.²¹

Chinese “fertility implosion” is already having profound impact on marriage in China. Today researchers characterize declining fertility in China into “waves of singletons”²². While the first three, distinct “waves” or phases since 1950 are well established²³, it has recently been noted that the fourth (第四次单身潮) is currently in progress²⁴. In the fourth and current wave, women increasingly view child-bearing and marriage as a form of entrapment and a burden that can interfere with aspirations of affluence.^{25, 26}

Not surprisingly this is most evident in the advanced urbanized parts of China, such as Shanghai, where there are already three million people over 60, or 21 percent of the population, roughly equal to the share in many advanced countries.²⁷

China now has a fertility rate of 1.6, below that of Western Europe. Nor is China alone. Other middle income nations and even low income nations are experiencing significant declines in fertility rates. Brazil and Iran already have fertility rates less than that of the United States. In Bangladesh and Indonesia, fertility rates are projected to drop below replacement rates (2.1) by 2030. Around the world, increasing affluence has been associated with fewer children, as is indicated in Figures 1-3. The longer run implications of these less than replacement fertility rates (2.1) is smaller and much older populations (Figures 3, 4 & 5).

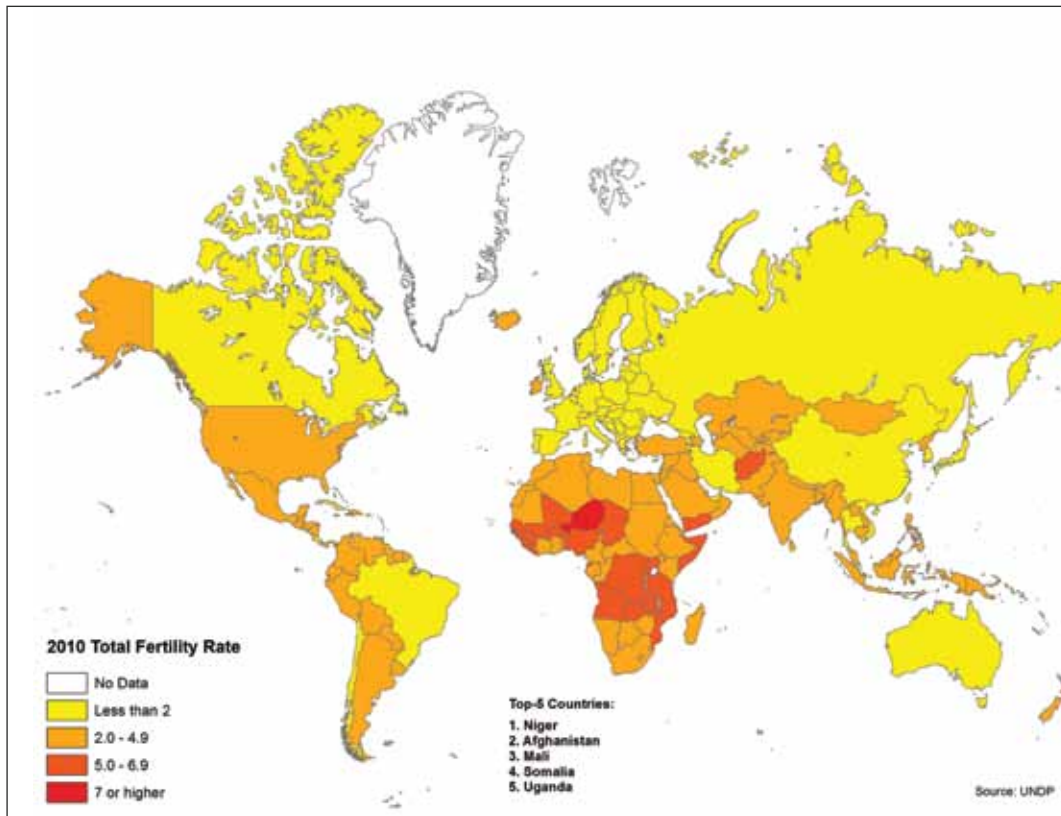


Figure 4:
2010 Total
Fertility Rate

GRAYING OF THE WORLD

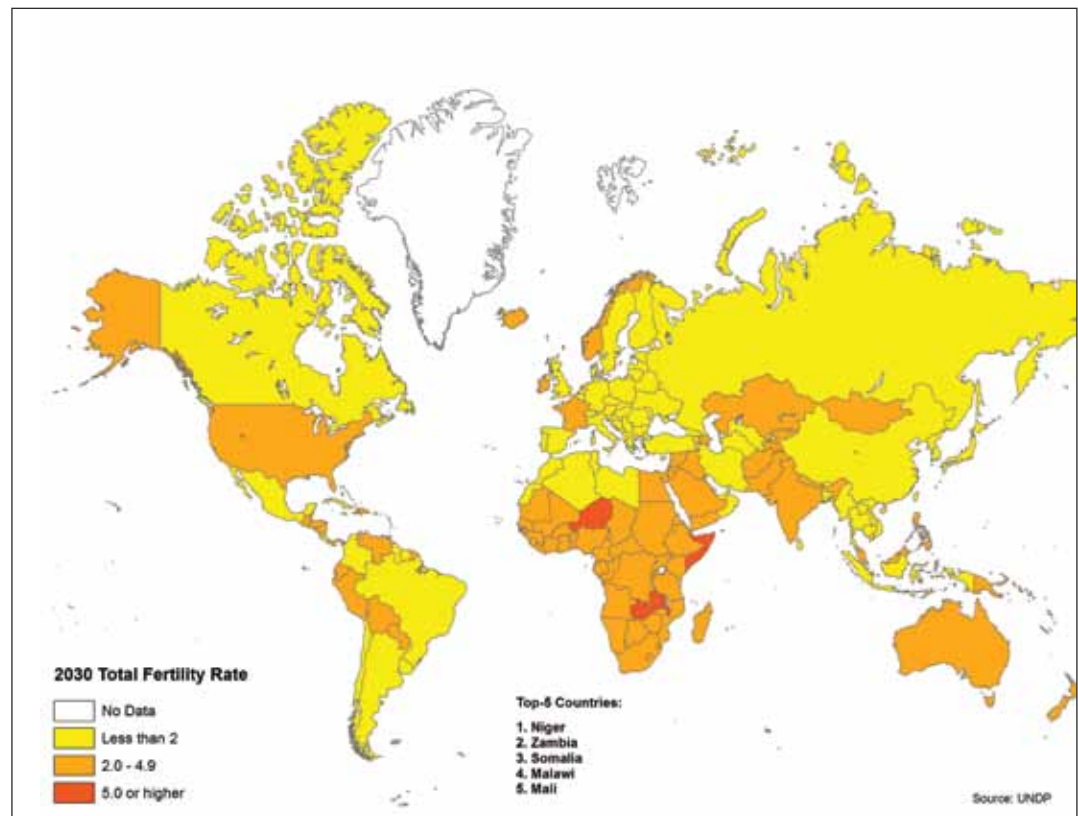
Here's the big issue down the historical road: Thirty years from now, how will Xiao Ming handle six elderly parents and grandparents, all by himself? Xiao Ming's impending dilemma is not unique to China.

Overall what author Phil Longman calls a "gray tsunami" will be sweeping the planet, with more than half of all of population growth coming from people over 60 while only six percent will be from people under 30. The battle of the future – including in the developing world – will be, in large part, how to maintain large enough workforces required for the economic growth needed to, among other things, take care of and feed the elderly²⁸. The National Bureau of Research (NBER) further notes that similar to child dependents, a large elderly population similarly requires a large proportion of resources, which likewise can inhibit economic growth.²⁹

Right now the situation seems dire. Fertility rates are projected to continue their decline. Increasing life expectancy is contributing to a substantial increase in the elderly population. In many nations, the size of the elderly population will exceed that of the under-15 population for the first time.

This could not have happened at a worse time, because the elderly have become ever more dependent on the state in many nations. Supporting a larger elderly population requires a larger work force, however it will be smaller.

**Figure 5:
2030 Total
Fertility Rate**



All of this leads to a demographic future that promises to challenge the nations of the world as never before. This is illustrated by rising Old Age Dependency Ratios in Figures 6, 7 & 8.

High income countries are projected to experience elderly population increases on the order of 60 percent in relation to the working age population (15-64) by 2030. In the United States, there are now 20 people 65 or over for every 100 of working age; little changed since 1985, when it was 18. However, by 2030 there will be 33 seniors per 100 working people. More extreme will be the fates of the world's third and fourth largest economies. Germany's ratio of elderly to working age individuals is already 33, compared to 21 in 1985. In 2030 this ratio will rise to an almost unimaginable 48, meaning that there will be only two working people per retiree. Japan's situation is even worse. As recently as 1985, Japan had a relatively healthy 15 retirees for every working age person. Today this ratio is one the world's most extreme: with 35 seniors per 100 working age people. In 2030, this ratio is expected to rise to 53.

Things will be a bit better, at least in the next two decades, in middle income countries such as China and Brazil. But the rate of aging will be even greater than in the high income nations. Both China and Brazil will experience a doubling of their Old Age Dependency Ratios; both will rise slightly above current US levels by 2030. China is projected to rise from 11 to 23, while Brazil's will increase from ten to 20. Despite its theological regime, which might be seen as working against smaller families, middle-income Iran is also aging rapidly. It should see a doubling of its Old Age Dependency Ratio, but from a low seven to a manageable 14.

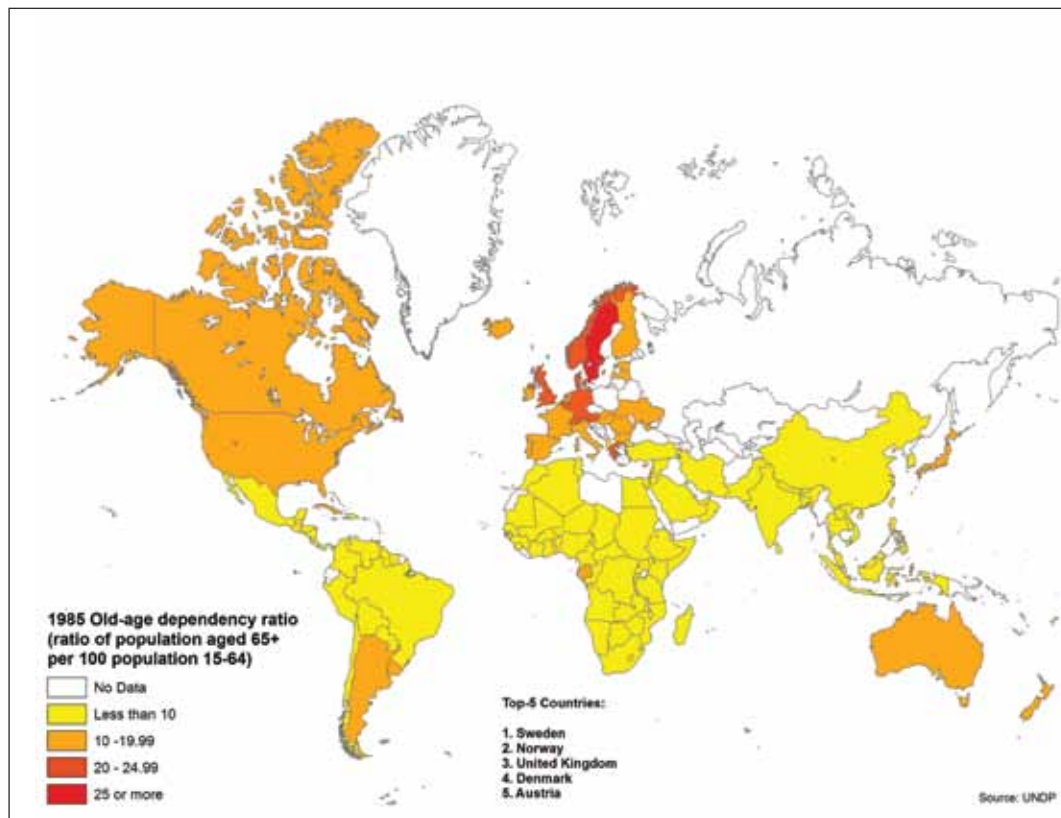


Figure 6:
1985 Old-age
dependency ratio
(ratio of
population aged
65+ per 100
population 15-64)

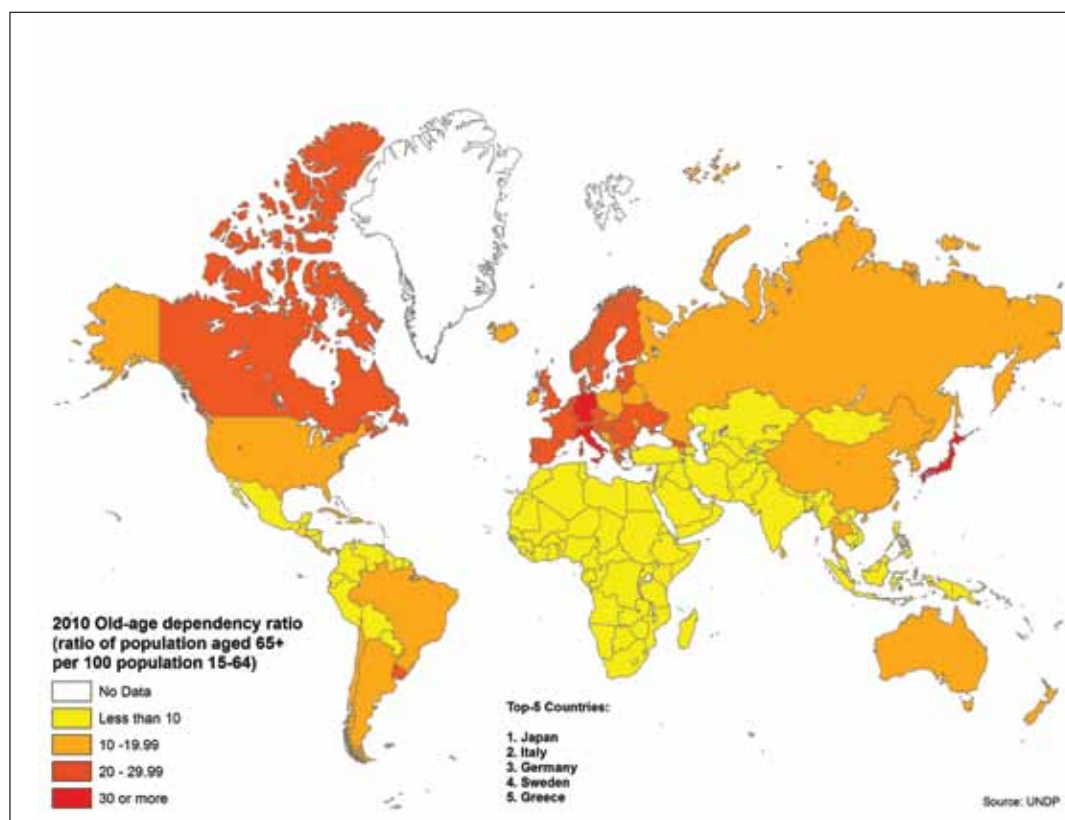
There will be a mix of results in the lower income countries, as illustrated by the Philippines and Nigeria. In the Philippines, the fertility rate is expected to remain high by current global standards, at 2.6 in 2030, only a modest drop from the present 2.9. However, the elderly will increase 60 percent relative to the working age population (from an Old Age Dependency Ratio of 6 to 10 in 2030). Similarly, in Nigeria the fertility rate is expected to decline only slightly, from 4.8 to 4.5. Alone among the group of nations reviewed, Nigeria is expected to experience only a negligible increase in the Old Age Dependency Ratio, remaining at 6. In 1985, these nations had Old Age Dependency Ratios of between 5 to 7.³⁷

Even if we were to discount population projections going forward²⁹, the world is on the verge of a global demographic precipice (Figure 9) – one in which the increase in proportion of elderly far outweighs that of the increase in proportion of children. A world which Andrew Blechman terms, “a world without children”³⁰, and that Ted Fishman describes as one which “pits young against old, child against parent, worker against boss, company against rival, and nation against nation”³¹.

FINANCING THE UNFINANCABLE?

Where there is virtually universal state support. The options available for addressing increasing old age dependency are not very attractive. Older people require considerably more in terms of overall support, particularly for health care, than younger generations³². This is a crisis particularly in demographically declining countries with well-developed social welfare nets. A recent Bank of International Settlements study found that, due to these pressures, Germany’s ratio of public debt to gross domestic product could exceed

Figure 7:
2010 Old-age
dependency ratio
(ratio of
population aged
65+ per 100
population 15-64)



200 percent in 2030, with annual debt service approach 10% of GDP. This would be a fiscal burden twice that of Greece today³³.

Where there is less state support: In many nations, state retirement systems often fail to cover a large share of the elderly population. While arrangements vary widely, many elderly must find their own ways to survive, such as by working longer or by relying on families. As emerging nations consider establishing or expanding social safety nets for the elderly, they need to consider the experience of the high-income world welfare states.

Family support: Given the stresses on public systems, it might be hoped that the elderly could be supported by their children. But this solution has been losing hold throughout the developed world. The mathematics cannot work in any of the challenged nations, at whatever income level: As the elderly population increases relative to the working population, an adult Xiao Ming is unlikely to be able, or willing, to support six parents or grandparents or even two or three.

Reduce benefits? The accounting answer may be simple – limit elderly benefits to what society can afford. But the politics do not work. Concentrated, organized interests, such as the elderly who receive state benefits, are likely to block any such reforms. The difficulty of dealing with today's challenges, which are modest compared to the future, is illustrated by recent developments in Western Europe and the United States, where recipients of state aid have fought, often successfully, to retain their benefits even in the face of significant funding challenges.

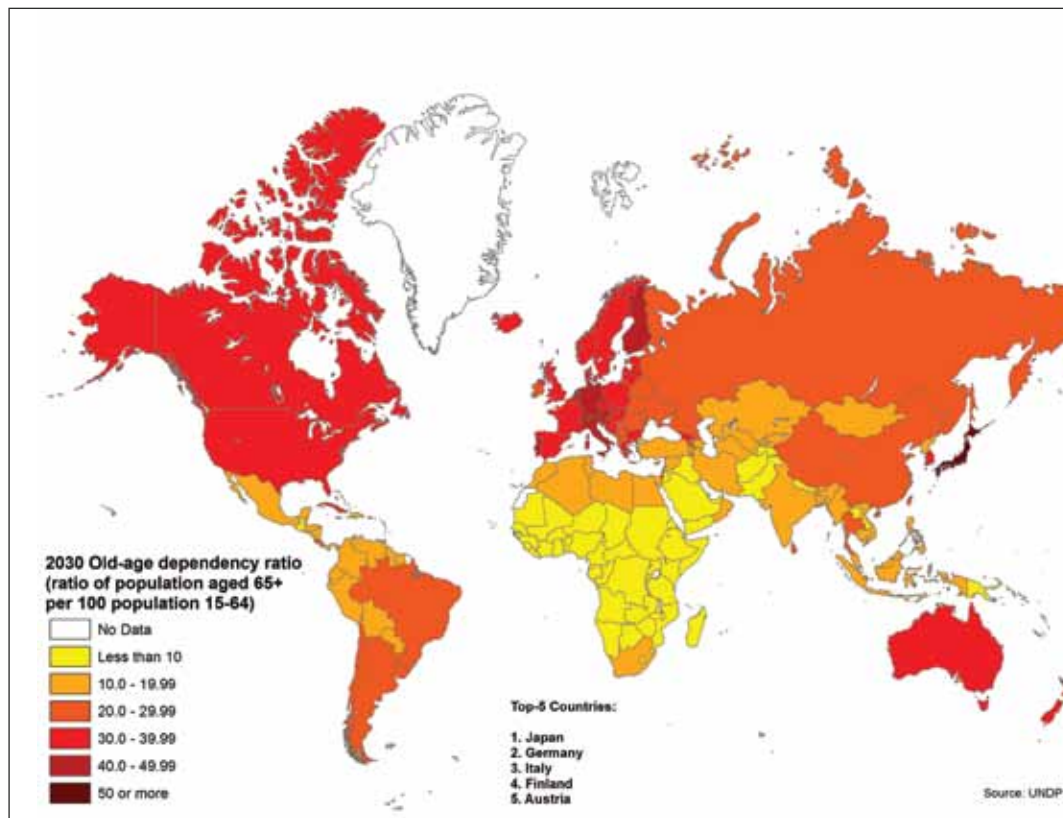


Figure 8:
2030 Old-age
dependency ratio
(ratio of
population aged
65+ per 100
population 15-64)

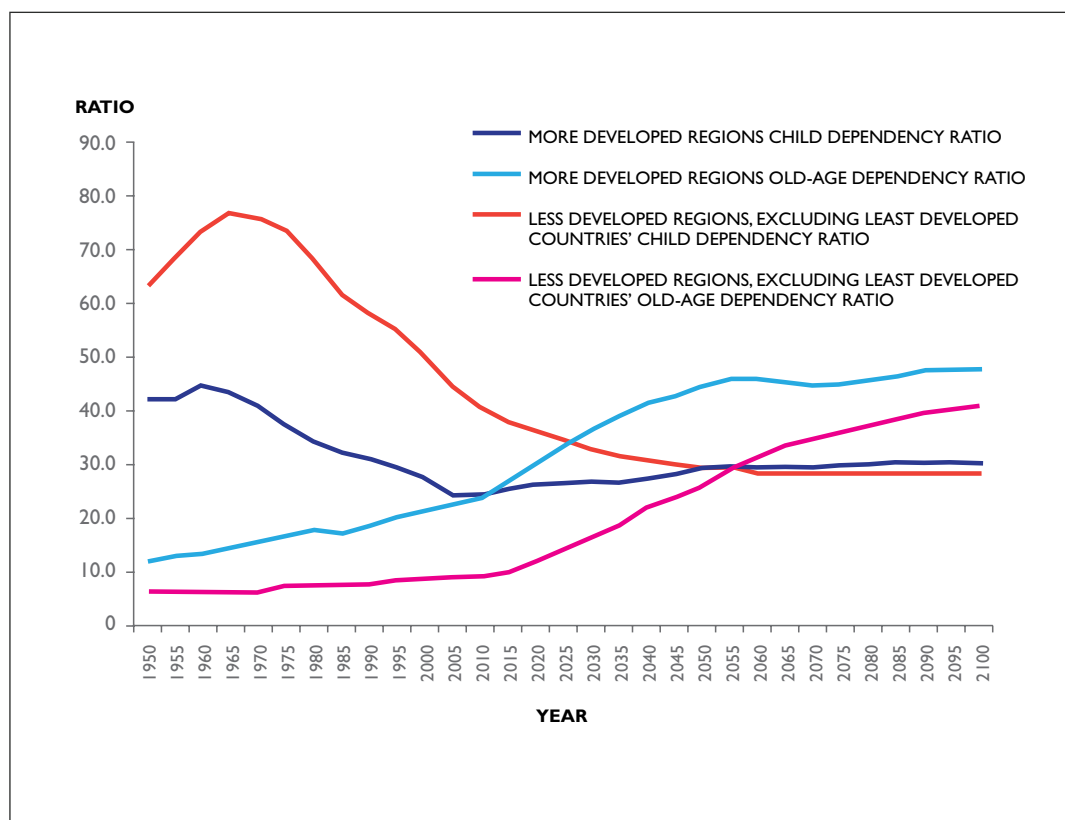
Increase the birth rate? A substantial increase in the birth rate in low fertility nations could help, but it would need to happen immediately. This would require broad acceptance of earlier and more frequent child-bearing women, many of whom are increasingly finding a life of affluence to be preferable to one of child-raising. Some projections show increases in the fertility rate in future years, however it could be too little-too late³⁴.

More migration? Increased migration from poorer countries could help richer countries finance the needs of their elderly. However, migration rates are dropping even in the United States, which is by far the world's largest country for immigration. Although the US foreign born population grew by 10 million over the past decade, both illegal and legal immigration have been dropping. In 2008 there were over one million naturalizations; last year there were barely 600,000, a remarkable 40% drop³⁵.

Work longer: As life expectancy has increased in recent decades, retirement ages have changed little. For example, in the United States, since the establishment of the state retirement system, life expectancy at birth has increased 16 years, while the retirement age has increased only two years. Generally, every additional year in life expectancy is an additional year of state support. One possible solution would be to extend retirement ages beyond the 65 years common in the high income world. Yet while life expectancy has increased, perhaps in 2030, the standard Old Age Development Ratio should be calculated using the population that is more than 75 years old instead of 65.

Figure 9:
UNDP global
old age and child
dependency
ratios.

In the developed
world, child
dependency will
equal old-age
dependency
within the next
5 years. In the
developing
world this will
happen in the
next 40 years.



More women in the work force: Another factor that could assist in meeting the daunting financial challenge of supporting the elderly would be for an increase in female participation in the workplace. The extent to which such an expansion is theoretically possible varies significantly by nation, but this could be part of the solution. There is an important caveat, however. Increasing the supply of workers does not automatically create wealth. Western Europe has had intractable unemployment rates for decades and has been joined in recent years by the United States. More workers, of either sex, will require strong enough economic growth to generate sufficiently high paid employment.

Affordable housing: One reason for lower birthrates may be the cost of housing. Many of the countries, and regions, with the most expensive housing also tend to experience the lowest fertility – Taiwan, Singapore, Hong Kong, and much of Western Europe. Across China, for example,² it is generally agreed that apartment sales prices are exceedingly high relative to incomes. In a number of places with considerable land for new development, like the United Kingdom, Australia and some metropolitan areas of the United States and Canada, researchers have connected substantially increasing prices and housing shortages with overly-restrictive land use regulation. Any strategy that would encourage greater fertility might need to address this issue. Further, the artificially higher house prices consume discretionary income that could be better put to encouraging economic growth by increasing the demand for other goods and services.

Economic Growth: Economic growth represents the best hope. Chinese-level GDP increases would better position countries for demographic challenges than the Japanese or European rates of the last two decades. Clearly, economic expansion would ameliorate the pre-occupation with splitting the economic pie. It will also be important to pursue policies that minimize costs for households. If, for example, the cost of housing or food is less, more money will be available for necessary social programs (and there will be less resistance to funding them). In a sense, the difference between laggard and strong economic growth can make a huge difference. For example, economist Bret Swanson has shown that the United States could conquer its well-publicized debt burden with economic growth rates of four percent³⁶.

This issue must be addressed: No one can accurately predict the future, but it is necessary to focus on the issue of aging and declining fertility. In advanced countries, if the elderly retain their state benefits and economic growth continues to be modest or even stagnant, the pressure on economies will be severe. There will be, to put it simply, less money to go around. Those who primarily fund the state – the working population – will have to pay more and could see material reductions to their standards of living. Central Bankers could yield to the temptation to print enough money to seemingly hyper-inflate away the problem, but that could lead to a lower standard of living for all.

Overall our research suggests several possible solutions, including extending work and careers into the 70s; means tested benefits; greater incentives for having children; and measures to keep housing, and whenever possible, more affordable and family friendly. But the ultimate issue will be maintaining economic growth.

The future of Xiao Ming and billions more will depend upon the result.

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