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The decline of western dominance

By Samuel Brittan

Developing countries now account for about half of total world output

Only a fool would make firm assertions about the future. How many pundits writing at the dawn of 1913 predicted the oncoming first world war, let alone two such wars that almost finished off European civilisation? What one can do is examine the implications of trends already in evidence.

It may be worth starting with the German writer Oswald Spengler who published in 1918-1923 an alarmist book, *The Decline of the West*. He was not so much wrong as premature. And like many "declinists" he failed to see that a decline in relative position was compatible with high and even rising western living standards.

Indeed, what has to be explained is not the west's looming relative decline but its temporary pre-eminence. Of a world population approaching 7bn, the US and western Europe together account for a mere 770m. Their gross domestic product per head – a very approximate guide to living standards – is three times the world average. Such discrepancies can hardly be expected to last in an increasingly globalised planet. In 1500, just after Christopher Columbus's voyages of discovery, China and India were both estimated to have had a total GDP considerably higher than western Europe's and GDP per head only slightly lower. Earlier still, in about 1000, living standards were fairly uniform – and low – throughout the world but the estimates show China slightly in the lead.

The reversal towards an earlier norm has already started. Emerging and developing countries now account, for the first time in the modern era, for about half of total world output. Historians have offered endless explanations for the west's temporary surge: religions that put more emphasis on the individual and his activities in this life; an intellectual climate more favourable to scientific thought; property rights that safeguarded acquisitions of wealth; less autocratic forms of government. The list is endless and doubtless all these elements played a part. In the late 18th century the government of England's George III sent a trade mission to China, only to be rebuffed by the Chinese emperor who declared that his country had everything it required and did not need western trinkets.

But such attitudes could hardly be expected to last, faced with the evidence of an increasing western lead. What the west initiated the others would follow; and eventually began to initiate on their own.

Global Turning Points, by Mauro F. Guillén and Emilio Ontiveros, decisively refutes rash prophecies that China will dominate the remainder of the 21st century. It may or may not acquire the largest GDP, but this will be only a large fraction of the GDP of a multipolar world. There are many other growing centres of economic power. In addition to the well known Brics – Brazil, Russia, India and China – we now have the Mints – Mexico, Indonesia, Nigeria and Turkey.

The apparent ascendancy of China is largely a matter of population. In terms of living standards the country has a long way to go. GDP per head is still only a third that of western Europe and a quarter that of the US. As Guillén and Ontiveros say, it is quite likely that during most of the 21st century India will be the biggest country in terms of population, China in total output, but the US will remain the largest in terms of output and income per head. Catch-up takes a long time.

More surprising is not the economic catch-up but the changed direction of capital flows. During most of the past century development writing was full of concern about how to raise capital flows and/or western aid for what was then known as the third world. Hardly anyone foresaw that the problem would be reversed and that emerging and developing countries would have savings surpluses on which the old industrial world now relies to finance its current account and budget deficits.

This western dependency on the rest of the world would be reduced, but not eliminated, if in times of recession western governments were less worried about borrowing directly from their own central banks.

Many commentators see the reverse flow out of developing countries as unnatural, by which they mean immoral. There are clearly special factors at work such as state management of the Chinese economy and the large surpluses of oil producers. But these do not look like going into reverse at all soon, and we had all better learn to live with the new direction of capital flows, which is apparently known in academic literature as the Lucas Paradox.

The intriguing question is what the emerging nations will do with their accumulating surpluses. There are already many signs that they have had their fill on holdings of dollars and other western currencies that earn low or even negative real interest rates. The next stage is both portfolio investment and direct investment in areas such as Africa, but also in America and Europe. For the moment, they can be assured of a welcome but what will happen as their stake grows?

There are almost bound to be tensions. Zillions of words have already been written about the declining real power of western governments. Even more will need to be written as they become responsible for ever smaller proportions of their own economies. The main sufferers are not likely to be ordinary citizens, but the hitherto governing and business classes.

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