Crystal Ball Gazing in the 21st Century: and Europe Will Decline

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Globalisation is changing lives

For all the problems with the current global financial system and protectionist threats, there are few reasons to believe that the march of globalisation will be stopped its tracks. The profound shifts in economic and political power from the developed world to the developing giants of China and India, resulting from globalisation, will surely remain a major force reshaping our lives in the 21st century. Indeed this observation has become something of a cliché.

The rise of China and India as major economic and political powers should be, however, seen as a reawakening rather than a first-time revolution. A little under 200 years ago, in 1820, China produced about a third of the world's output and India produced around 16%. The "big four" European countries accounted for just 17% of output and the fledgling US accounted for less than 2%. By 1950 the US share had risen to 27%, China's had fallen to 5% and India's to 4%. The European big four claimed 19%.[1]

By 2006 the shares of global output had changed dramatically. Europe's big four accounted for less than 13% and the US's share had slipped to 20%, whilst China's had risen to 15% and India's to 6%.[2]

Moreover, this shift from the developed western countries to the rising giants of China and India is expected to continue. According to the UK Treasury China's share will rise to nearly 20% by 2015 - on a par with the US's relatively stable share. The EU25's share will have fallen to 17% in 2015, compared with 26% in 1980, and India's will have picked up to 8%.

Shares of global output (%) (Purchasing Power Parity terms)

	1980	2003	2006	2015
EU25	26	22	20	17
US	20	21	20	19
Japan	7	7	6	5
India	3	6	6	8
China	3	13	15	19
Brazil	3	3	2	3
Russia	4	3	2	2
Other	34	25	27	27
Total	100	100	100	100

Sources: HM Treasury, Global Europe, full-employment Europe, October 2005 for 1980, 2003 and 2015. World Bank, World Development Indicators database, 2007 for 2006.

Whilst few doubt that the world is currently experiencing a period of rapid change and economic integration, globalisation, the increased global sourcing of goods and services and increased global flows of capital, is not, of course, new. The developments since the Second World War represent but the latest globalisation phase in modern history.

The century leading up to 1914 saw rapid growth in trade, driven by major advances in industrial and transport technologies. This was accompanied by growing international flows of capital and labour. These trends were reversed by the outbreak of the First World War, and the protectionism and depression of the 1920s and 1930s. Globalisation was in retreat. But following the Second World War, successive GATT (now the WTO) agreements resulted in the progressive lowering of trade barriers, helping to facilitate a second major phase of globalisation. During this period the world economy delivered unprecedented rates of economic growth. But, in many ways, the most recent 15-20 years of this post-war globalisation phase has been the most dramatic.

This, latest, period has been marked by several distinctive trends. They are the accelerated reductions in transport and communications costs; greater international specialisation driven by continued liberalisation; the IT revolution and the incalculable significance of the internet in transmitting information and ideas; the increasing trade in services due to the digital revolution and, finally and arguably the most significant, the increasing integration of major emerging markets into the world economy.[3]

Taken together these trends make the latest phase of globalisation the fastest and broadest in scope. A truly global, interconnected, economy has developed. And, despite the current global economic difficulties, it is difficult to see how the forces of globalisation can be reversed. The economic and technical drivers of integration, if anything, are growing stronger. Globalisation develops its own self-sustaining momentum.

But could anything stop it? One possibility is that a serious world recession could by leading to beggar-thy-neighbour protectionism. But a serious world recession is still not expected despite the current slowdown in world growth and possible recession in the US. Another possibility is of there were to be a major geopolitical clash between, for example, the US and China. Such events can never be ruled out.

Demographic trends up to 2050

One significant factor, which is all too often overlooked, behind the shift in political and economic power in the 21st century will be demographic developments. By the middle of this century the UN's demographers expect some quite staggering changes.

The UN expects the world's population to reach 8.0 billion in 2025 and 9.2 billion in 2050 compared with 6.1 billion in 2000, 6.5 billion in 2005 and just 2.5 billion in 1950. In the century from 1950 to 2050 the UN, therefore, expects the population to have grown more than three and half fold. [4]

In the half century from 2000 to 2050, population is expected to increase by 3.1 billion – around 50% - most of which will be accounted for the rises in Africa (1.2 billion) and Asia (1.6 billion). 600 million of the increase is accounted for by India, the population of which is expected to overtake China's by 2025. Very few major countries are expected to experience significant population falls over this period – though Japan and the Russian Federation are the two most obvious exceptions. Japan's population is expected to slip from 127 million in 2000 to 103 million in 2050. The corresponding data for Russia show a more severe fall - from 147 million in 2000 to 108 million in 2050.

Data for the working age population are, however, more relevant when considering the economic potential of individual regions and countries. The pattern of regional change is, if anything, more pronounced than for total population. The falls in the working age populations by 2050 of Japan and much of Europe (including Russia), with their low fertility rates and ageing populations, are particularly marked.

These dramatic population shifts will inevitably have major economic implications. The economic centre of gravity has already shifted in a quite remarkable way from the west, especially Europe, to the emerging nations of the east. By the middle of the 21st century this can only be more marked. Europe's relative economic clout will diminish further. Businesspeople know this already.

Winners and losers in the 21st century…

The winning businesses in the 21st century will be the free and flexible, unencumbered by heavy regulation. They will be situated in those countries that can make legislative decisions quickly and are free to make the trading arrangements best suited to their needs.

The "received wisdom", especially in the EU, has tended to be that the size of the European "domestic" market is the crucial factor when it comes to winning business. The EU, therefore, has spent a great deal of energy in pursuing economic integration. It has, for example, actively pursued the completion the single market, which aims to break down the internal non-tariff barriers to trade as the formation of the EEC's customs union, back in 1957, removed internal tariff barriers.

But this "received wisdom" has quite simply been overtaken by the forces of globalisation. The EU's thinking has a distinctly old-fashioned mid-20th century tone to it. Open, multilateral trade relationships, combined with mutually beneficial bilateral trade agreements are now the way forward. Globalisation has not made the size of the domestic market totally irrelevant for business, but it has clearly diminished its significance, whilst

Working Population (aged 15-64 only), millions

	1950	2000	2025	2050	Change: 1950 to 2000	Change: 2000 to 2050
World	1,538	3,853	5,241	5,875	2,315	2,022
Africa	123	445	828	1,300	322	855
Asia:	842	2,358	3,217	3,398	1,516	1,040
China	344	866	988	860	522	-6
Japan	50	87	72	52	37	-35
India	221	632	977	1,116	411	484
Europe:	360	494	462	384	134	-110
UK	34	38	41	41	4	3
France	28	38	41	40	10	2
Germany	46	56	50	42	10	-14
Italy	31	39	37	30	8	-9
Spain	18	28	30	24	10	-4
Russian Federation	67	103	87	66	36	-37
Poland	16	26	24	17	10	-9
The Americas	205	536	707	763	331	227
USA	102	188	225	249	86	61
Brazil	30	113	154	160	83	47

Source: UN, Department of Economic and Social Affairs, World Population Prospects, the 2006 revision. Medium variant.

increasing the importance of the ability to respond flexibility to changing business conditions.

As Gideon Rachman wrote in the Financial Times recently: [5] [6]

> *"…taking pride in the sheer size of your country is increasingly anachronistic. Traditionally…a big country meant a bigger market and so more trade and wealth. But…globalisation has opened up markets across the world. China and India are getting bigger largely because they have access to the markets of the developed world, not because of the size of their domestic markets. Small countries can trade their way to success more swiftly. Think of Singapore or Switzerland."*

And he went on to say:

> *"…since the traditional disadvantages of being a tiddly country are disappearing, you are left with just the advantages…Governments in small countries…find it easier to craft and implement policy."*

He also pointed out that small countries dominate almost any league table of national welfare. He quoted the IMF's ranking of countries of GDP per capita which showed that four of the five richest countries in the world have populations of less than 5 million.

…and the EU will be a loser

The EU's economic policies, underpinned by the anachronistic regional customs union and focussing on the completion of the single market, are not just old-fashioned. They increasingly damage the international competitiveness of EU businesses and their freedom to compete.

Firstly, the existence of the customs union, with its common external tariff, prevents individual member states from developing their own bilateral trade deals with favoured trading partners. Britain, for example, with its unique international links and dependence on trade for its prosperity, would benefit from developing bilateral free trade relationships with many non-EU countries including the USA and Commonwealth countries including Canada, Australia and, crucially, India. But it cannot.

The Commonwealth, no longer redolent of Empire, could develop into an economic powerhouse in its own right. Commonwealth Advantage, a go-ahead Canadian organisation with the objectives of creating new trade opportunities and strengthening ties with other Commonwealth nations, sees the Commonwealth as a true economic bloc, where the commonalities of language, law, accounting systems and business regulations can present a 15% cost advantage over dealing with countries outside the Commonwealth.[7] With all its commonalities, Commonwealth Advantage claims the bloc could be hailed as the world's first "global domestic economy". And India's Commerce and Industry Minister Kamal Nath has called the Commonwealth "the new paradigm", saying that it is the ideal platform for business and trade.

Secondly, the EU's single market, whilst bringing some benefits for businesses, has developed a costly body of regulations that, by the very nature of the EU, are difficult to repeal or change. Current estimates of the costs and benefits of the single market for EU member states are available from EU Commission sources. Günter Verheugen (Vice-President of the European Commission, responsible for enterprise and industry) has estimated the cost of complying with EU regulations at as much as €600 billion a year. This estimate is equivalent to 5.5% of EU GDP – equivalent to the size of the Dutch economy.[8]

Meanwhile the benefits are much lower than the costs. According to the Commission: [9]

> *"Over the last 15 years the single market has increased the EU's prosperity by 2.15% of GDP. In 2006 alone this meant an overall increase of €240 billion - or €518 for every EU citizen - compared to a situation without the single market."*

The costs of the EU's single market, therefore, comfortably outweigh the benefits by a factor of about 2½ to 1. Given the red-hot competitive pressures that businesses face this is akin to playing tennis wearing diving boots.

The winners of the 21st century will continue to be the "Singapores" and the "Switzerlands", as identified by Gideon Rachman, providing they can retain their economic freedom and business flexibility. But for those countries facing demographic decline, unable to optimize their trading relationships in a new global world, and hampered by expensive regulations it is hard to see how they can avoid relative decline. If the EU continues to bury its head in the sand concerning the need for genuine and radical reform, and loosen up its obsessively centralising and controlling tendencies, EU member states will surely be losers in the 21st century. ■

1. Philip Stephens, "A global response is needed to the shifting world order", Financial Times, 30 November 2007.
2. World Bank, World Development Indicators database, 14 September 2007, PPP data.
3. Responding to global economic challenges, UK and China, Ministry of Finance, PRC and HM Treasury, October 2005.
4. UN, Department of Economic and Social Affairs, World Population Prospects, latest data available from www.un.org/esa/. Medium variant.
5. Gideon Rachman, "For nations, small is beautiful", Financial Times, 4 December 2007.
6. Ruth Lea, "Globalisation is here to stay and Britain must be free to respond", Global Vision, December 2007, available from www.global-vision.net.
7. Commonwealth Advantage's website is www.the-ca.ca.
8. Ruth Lea, "A new trading relationship for Britain with the EU", Global Vision, March 2008, available from www.global-vision.net.
9. Available from www.ec.europa.eu/internal_market/.