

Western Dominance Ended 25 Years Ago | Jeffrey Sachs

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Jeffrey Sachs (JS): The idea that the United States still dominates China in technology, I think is not correct, in almost any sphere. I actually think that Africa's best hope is a close partnership with China. Africa's share of the world economy, which is 5% today, by the end of the 21st century reaches 30% of world output – what a different world that would be.

The 19th century was a decisive century in changing the world balance of power. Even the 19th-century change had much longer antecedents. But the 19th century was the century in which European power came to dominate Asia and Africa. And by the end of the 19th-century, essentially almost all of Asia and Africa, either formally or informally, were under European imperial control. Underlying that remarkable shift of global power was the industrialization of Europe. The Industrial Revolution began in the middle of the 18th century, both with advances in mechanisation in many sectors, but most importantly with the advent of the steam engine, a great invention developed in China a thousand years ago, but not commercialised in the same way and commercialised in Britain in the 18th century. And that single invention, in my view, was the most decisive change in the world because it created a measure of energy and power that was unparalleled in history. And during the 19th century, especially Britain, but increasingly other European powers, and then later in the 20th century the United States used the advantages of early industrialization to essentially control almost all of the world, either through direct imperial control or through indirect measures of finance and economy. And what this graph shows is a well-known data series created by the late macroeconomic historian Angus Maddison of the Netherlands trying to estimate the share of world output in different regions of the world using a purchasing power parity system of measurement. And in 1820, still, Asia was 60% of the world output and about 60% of the world population. What it meant was that in 1820, the differences of per capita income in the world were not very large. And that means that wherever the population was, that was approximately the share of world output as well. And Asia was still 60% or so of world output, with China and India being the two giant economies of the world, and still much larger than the European economies. And the United States barely existed at that point. It was a very small settlement on the eastern border of North America. But the green curve, which is the Asia share of GDP, look what happens to it over the period from 1820 to 1950, what

China loosely calls the century of humiliation. This is the period in which the Western dominance became complete. And in the two biggest countries of the world, India became, of course, a colony of the British Empire. And China became essentially dominated by Western powers starting with the first Opium War in 1839 and then followed by the second Opium War and by the Taiping rebellion, which by some measures was the largest civil war in world history with tens of millions of people perishing. And by the end of the century, China also facing onslaught of the one industrialised nation of this region, which was Japan, which more or less successfully industrialised after 1868.

So China and India fell into great disarray and into economic dependency. And that continued throughout the first half of the 20th century in China, of course, because of revolution, because of civil war, because of Japanese invasion, followed by more civil war. So that by 1950, or by the founding of the People's Republic of China. At the moment of the independence of India in 1947, Asia was impoverished and its share of world output rather than being 60% was around 18% of world output. When I was a student one of the first books I read was called Asian Drama by Gunnar Myrdal who was a Swedish economist and a Nobel laureate. It was filled with doom, gloom, and determinism and Western vision of Asia as being a poor and subservient region. Of course, it was completely ahistorical because if you just looked back 130 years from the mid century of the 20th century, Asia was the two largest economies of the world still and was more than half of the world population. To my mind, the most significant fact of world history is that the green line turned up sharply starting around 1950, which I attribute to the independence from imperialism of the People's Republic of China and of India as the two most significant developments. Of course, the rest of East Asia had similar transformation because Korea gained its independence from Japan, Japanese colonisation, though it was followed by war and division, and Indochina had to fight another 25 years for its independence, from America replacing France as the imperial power for a quarter century. But basically, in my interpretation, without going into. I think it's quite simple. If you're under imperial rule, you can't develop. If you are independent, you have the chance for development. And the break point came at the end of World War II. The US is an empire, but a slightly different kind of empire. So it did not block the Asian development. And I'll return to that in just a few minutes.

If you look at the United States curve in this, that is the line that starts near 0% in 1820. And by 1950, the US overtakes the Western European curve, which was the dominant power of the world from 1850 to the end of the Second World War. Europe destroyed itself economically in two world wars. This was a kind of economic suicide because Europe had two civil wars from 1914 to 1918 and 1939 to 1945. Without that, Europe would have continued to be strong and imperial, probably independence would not have been achieved for India and so forth. All of these changes came in my opinion largely because of an act of self-destruction into industrial-scale wars. But the United States reached this remarkable fact of being a larger economy than Western Europe as a whole by the beginning of the post-World War II period, 1950, and since then, more or less, it's been on scale. The European sphere with the European Union as two large rich regions and largely under US geopolitical dominance. So the basic story is that that peak power occurred in the middle of the 20th

century, but since then Asia's economic dynamism and its economic recovery is the fundamental reason why geopolitics is changing, of course, because the balance of the world economy is again coming back into relationship with the balance of world population. And the world population is Asian to a majority, still 60% of the world population lives in Asia and now more than 50% of world output once again is produced in Asia.

I called the talk Emerging Asia because 28 years ago, I published a book called Emerging Asia. If you ever heard of the book, you're alone. Nobody ever heard of this book, and it's for a very interesting reason. I published it in the spring of 1997 with the Asian Development Bank. It's a very optimistic book about Asia. It said Asia is going to continue to rise. About four weeks after the book was published by the Asian Development Bank, the Asian financial crisis came. So I think always that the bank was very embarrassed by this book because the book said Asia will have a bright future, it will be very dynamic, and then a few weeks later came this massive crisis. And the story line in the West was that the Asian financial crisis proves that Asia's growth was a myth, that it was transient, that it was short-lived. And many people in the Western economics literature said that Asia doesn't really have a bright future, that it's growing the same way that the Soviet Union was growing and that it would also collapse. Paul Krugman, for example, writing about the myth of the Asian miracle and saying by 2010, Asia would look like the Soviet Union, in other words, in a kind of collapse. And that was a common idea. I always thought that idea was wrong. And in 1997, I published a very optimistic account of this, which, as I say, preceded the Asian financial crisis by a few weeks. So the story also of this talk is that about six months ago, I remembered that in that book, I had forecast the Asian economy for the year 2025 in one of the tables of the book. So I hadn't looked at the book in 27 years, and I went to see what did I say?! So I went to my bookshelf to get a copy of the book to look at the table, and I could not even find a copy of the book. It was out of print even in my own library. So I ordered it on Amazon, got a copy of the book, looked at the tables, and the table is what you see there. I predicted the left hand column and the right hand column was the actual outcome for the period 1995 to 2025. The predictions were quite optimistic. They said Asia would grow rapidly. And the predictions in the aggregate were almost exactly right, by the way, which is interesting. But I underpredicted China's performance. I came close to India's performance and I overpredicted ASEAN performance, broadly speaking. So, Southeast Asia grew a little bit less than I predicted, China grew faster than I predicted, and if you took the aggregate, it was actually quite close. I said in this book in 1997 that Asia's share of world output would rise by 20 percentage points between 1995 and 2025. I was using Maddison's data which discontinues in 2008. So to check how I did, I went to the IMF Purchasing Power account and according to the IMF's data, which is a little bit different in baseline, Asia's share of world output rose 20 percentage points between 1995 and 2025, exactly what I said actually to the decimal point. So Asia's share of world output in the IMF accounts increased from 30% of world output in 1995 to 50% of the world output in 2025. But the point is that you could tell on underlying factors that Asia was in a very dynamic state 30 years ago. And the basic logic of economics said, Asia will continue to narrow the gap with the richer countries, it will achieve economic convergence and that means that the growth will be higher than in the Western countries,

meaning the US and Europe. The gap will narrow, the share of world output will rise. And that's exactly what happened.

Of course, it's not so simple. The rise of China is not a mechanical operation. It was 30 years of very hard work, very good planning, very good strategy, very high investment rates, very well governed, it outperformed my projection, but even if it had been exactly on the projection, it would still reflect the potential was well used. And that is very important. All projections are conditional. And I was making the argument that Asia had a growth model already by the mid-1990s that would continue to serve Asia well between 1995 and 2025. This is the IMF data, and the orange line on top is the share of Asia in the world output using the IMF World Economic Outlook data, and you see it goes from 0.3 to 0.5 between 1992 and 2025. And what you can see also, of course, is that this means that the share of Europe, which is the green line, the second line, and the share the United States, which is the purple line actually North America because it includes the United States and Canada together in this grouping, both of those decline as a share of world output. And we know that in the IMF data, at purchasing power prices, China has overtaken the United States as the world's largest economy, and did so sometime around the year 2018, and now is around 30% larger than the US economy. And I think that is not true in dollar terms, but in purchasing power terms. In dollar terms China is about two-thirds the size of the US economy. In purchasing power adjusted terms, it is about 30% larger than the US economy. I think on many different criteria, the purchasing power measurement is the right measurement to use in making the comparisons. So I regard China as a significantly larger economy than the United States is. I also regard China as on par or ahead of the United States in almost every area of industry, not in every area, but in almost area of the industry. So the idea that the United States still dominates China in technology, I think, is not correct in almost any sphere, though there are a few areas where it remains true. But in most spheres, I think China has equaled or excelled in technology compared to the state of the United States. In actual living standards, China's average living standards are still lower than in the US for a number of reasons, but not in productive capacity and especially productive capacity in industry. So this is basically simply showing what I think is pretty much what I projected 30 years ago, and it has come to pass. And it's a very good thing, in my opinion, that this has come to pass. Because economics is not a zero-sum game where China's rise is somehow America's detriment. Economics is a positive-sum game. It's not a struggle over resources. Economics is a progress based on know-how fundamentally. So this is not China taking more of the resources away from the United States. This is China using improved know-how and now cutting-edge know-how to raise living standards. And that I regard as not only hugely beneficial for China, but very positive for the United States and the rest of the world as well. Because this is not, again, a zero-sum struggle. This is something in which there is shared benefits from technological advance.

I can add as a footnote, as we know from trade theory, it doesn't mean that everybody benefits from every advance. Most technological changes and international trade benefit some groups more than others. So I have no doubt that some workers in the United States were hard hit by import competition from China. But the US economy as a whole was a big beneficiary of

China's rise, not a loser from China's rise. If the United States had a functioning political system that redistributed gains from winners to losers, then everybody could easily be better off. But because we don't have a well-functioning political system, losers in the United States remain losers without any help from the winners because the US mentality is that the winner tries to take everything. And that's the way that the direction is going, but that's not China's fault, that is the fault of the US domestic politics. So broadly speaking, this is what I think could have been and what I did project 30 years ago.

If we look forward, it is not the case that China will take over the world economy or that China will be the new hegemon, or that Asia will take over the world economy. In my opinion, none of that is actually in the cards. What is happening is that I believe that all regions of the world will advance by the technologies that we have today. And because of demographic trends in the world, we're gonna see some surprises. The two most dramatic demographic trends in the world are actually the population dynamics in Africa and the population dynamic in Asia, especially in China. The population dynamic in Africa is a massive increase of population in the next 75 years because the fertility rates remain very high, though I think they will come down fast, but they remain very high today. And therefore, with a young population and high fertility rates, Africa's population prospect is for a very significant rise of population. At the same time, China's fertility rate is very low. We're all going to be raising robots soon, rather than children probably, or not so many of them, and the result is a likely significant decline of population of China. Even though Chinese policy is now to try to raise the population and birth rate, governments don't have so much say in pushing up birth rates. They may call for it, but I don't know of any place where it makes much difference. People want fewer children. Children are expensive in our urban modern era. Fertility rates are well below replacement rate; somewhere around 1.4 or even fewer children per woman, and that means each mother is replacing herself with statistically 0.7 daughters or so. And that means the population is falling by 30% every generation cycle. And the generation cycle is around 30 years. So every 30 to 40 years the population tends to decline by a rate of around a 0.7 or 30% decline. And if you project this, which is mechanical, not a forecast, but the UN makes a projection of China's population by 2100, it's shocking. 640 million people instead of 1.4 billion people. That is not a forecast to be taken as a literal forecast, but that is the median scenario right now of the UN population division based on an extrapolation of the very low fertility rates. At the same time, the fertility rate in Africa is around four. That means each mother is having two children, two daughters, excuse me, four children. Two of which are daughters, so each mother in the next generation is producing two mothers. That means a population that is doubling each generation. Africa's generation is shorter than China's generation because marriage rates are younger, the average age of birth is younger, so it might be 28 years or so. If you make that projection... Africa's population rises from today's 1.4 billion, the same as China, to 3.7 billion by 2100. If you can imagine that, that Africa would have six times the population of China according to the UN forecast by 2100. Again, I don't want to say that's really a forecast, but I want to say that is absolutely the overwhelming direction of change of the world demography. So in this graph, just using the UN data, the green line at the top is Asia's share of world population, which is 0.6 or 60% today and it goes down to below 50% by 2100. Africa is the steeply rising blue

line here, it goes from 18% of the world population to 37% of the world's population in 2100. Incidentally, look at how Asia and Africa by 2100 have more than 80% of world population, the two regions. The world will be overwhelmingly Asian and African by 2100, roughly 82% in this scenario, with another 5% or so in North America and in South America and in Europe.

How interesting. The part of the world that dominated the world will have about 10% of the population by 2100 on this scenario. Of course much can change from mass migration to very different patterns of settlement, but this is a huge change in the world. The bottom lines are Europe, Latin America, North America, and Eurasia. They're all small parts of the world, the dominant part of the world is Africa and Asia. If I use a very simple model of economic catching up to ask what would the shares of world output be of different regions of the world, if I use that assumption, basically the core idea is that Africa could have the same kind of catching up that Asia has had over the last 40 years. I think this is a real possibility. It's by no means a guarantee. But I don't regard Africa as a basket case or hopeless any more than I would have ever said that Asia fit that description. But the mainstream idea is that Africa is doomed to poverty. This I think is wrong because no region is doomed to poverty. I actually think that Africa's best hope is a close partnership with China, which would be a win-win proposition for China and for Africa because these are complementary economies, a resource rich Africa, a technology rich China, you put the two together, that's a lot of mutual benefit. And that, I think, is actually just what the world needs. But the implication of that is that Asia's share of the world economy peaks at mid-century but just a little over 50%. And it's a little below 50% by 2100. Whereas Africa's share of the world economy, which is 5% today, by the end of the 21st century, reaches 30% of world output. What a different world that would be, with Africa being an absolute centre of the World Economy, not an exploited, impoverished periphery of the world economy. No guarantee of that, but also there's no fundamental reason why that shouldn't be the case because Africa could achieve a digital economy, electrification, modernisation, robotics, everything else. It depends on education and investment more than anything else and a good economic strategy. So I think that this is not a wrong-headed scenario.

Just to say about half the world will live in large cities, and another 25% will live in small cities. A large city for a UN is not what you would consider a large city in China. It's 50,000 people or more. And towns are below 50,000 down to 5,000, and then rural is less than that. Most of the world obviously will live in cities or towns by mid-century, about one billion more people will come into cities, all of them in cities in Asia and Africa in the next 25 years. So that's a big challenge ahead, is effective urbanisation, pleasant, nice, good, productive, peaceful places for people to live. More Shanghai's. So how does one do that? So my view, and we don't have time to discuss it at length, but my view is that the dynamics of change will involve six major transformations of economic life. The most important for every place in the world is education, skills, and technological know-how. And this is what will propel China for the next quarter century, is China's leadership in innovation. China is the world's leading innovation economy today. It produces the most patents, the most journal articles weighted by impact, and the most industrial advances. The United States, second. So this is

the first transformation. Second is health and health care, which remains vital for well-being and for our survival. The third is sustainable industry, meaning that we transition to a decarbonized energy system and a circular industrial ecology, in other words, dramatic reductions of pollution. This is by no means being achieved or guaranteed, but it's absolutely crucial. The fourth is sustainable food supplies and land use. The fifth is sustainable cities, especially with another billion people joining large cities in the next 25 years. And the sixth is the transformation to a digital economy and the very strong implications of what artificial intelligence will mean for the organisation of work and for the distribution of income and for the role of the public sector.

All of what I am saying is we're in a fundamental change of world history. It's happened. The Western dominance ended around 25 years ago. The idea in Trump's head that the US dominates is about a hundred years out of date. So is Trump; on almost everything. It doesn't make the situation safe. It means there's actually a very big gap between the political perceptions of American policymakers and the world as it is today. And that gap is very dangerous because the US policymakers, and especially the President of the United States, believe the US still runs the show. And believes that the US is still so powerful that it can dictate the terms to the rest of the world. And that's why he thinks he can win the tariff wars, the trade wars, the technology wars, and so forth. All of this, in my view, is wrong because he didn't read Emerging Asia, so he doesn't know what happened. He doesn't understand the reality of our world today. The US is only about 14% of world output. It's about 12% of world trade, and it does not have a chokehold that I can see on any major technology, whether it is semiconductors or artificial intelligence or biotechnology or any other area. It has many advanced technologies, but no chokehold on these technologies. I believe the world continues to converge. The biggest danger in the world is that instability leads to conflict because conflict is devastating, especially in the nuclear age. It's by far the biggest risk we face, is stupidity leading to war. And that China has avoided. The United States has not avoided that. China's wisdom has been to stay out of all wars for decades. And in fact, the last war China was involved in was in 1979 for one month in a spat with Vietnam. But before that, also no wars for a long time. So that's part of China's success is that it has avoided overt conflict while the United States has been in nonstop conflict. And the mindset in the United States is for more conflict because the US thinks it can win, but it keeps losing these conflicts. So that's how I see geopolitics and economics related. The world has changed, but the American mindset has not yet changed. Thank you very much.

END

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