The Next Superpower

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In 2000 the Chatham House forum, part of the Royal Institution of International Affairs, produced a document entitled 'The Winds of Change.' This document was based on research conducted by a consortium of business leaders, military personnel and political groups. The aim was to inform the thinking of mangers who needed to take irreversible decisions which involved committing resources for large parts of the next two decades. For instance: oil companies making decisions about where their upstream and downstream investments should go; healthcare companies making decisions about the nature of payment models for new pharmaceuticals; and Non-Governmental Organisations (NGOs) planning how to deal with long term humanitarian relief.

Looking back now at the world in 2000 from this vantage point we ought probably to be impressed at what we have seen and lived through. This was before 9/11, before the second Gulf War, before oil at $150 a barrel, before the fall of the Royal Bank of Scotland, before the rise of the Royal Bank of Scotland, before broadband, before Obama, before China was a superpower and so on.

So the world has changed greatly since 2000, but then it changed between 1990 and 2000, although perhaps less dramatically. There is a popular stylised fact that the pace of change is increasing, driven by globalisation. Interconnectedness extends and accelerates changes that start in one place and then extend to others, such as the banking crisis where US home loans end up causing a property crash in Dubai and a near recession in China.

So the decade 2000 – 2010 (conflict) was more volatile than 1990 – 2000 (transition) which in turn was more dramatic than 1980 – 1990 (liberalism) and 1970 – 1980 (the end of orthodoxy) and 1960 – 1970 (consumption). This article outlines what might be the themes of the next two decades. All we know at the moment is that they may be more volatile than the one we have just lived through.

If we refer back to the 'Winds of Change' document from 2000 we will be struck by how prescient this document was. The main thrust of the publication was to suggest that the world would develop along one of three scenarios from 2000 – 2020. These scenarios are:

Scenario 1 - Faster, faster

The world would continue to globalise as a de-regulated financial system continues to drive towards a single global free market. China would continue to absorb western capital and technology and more and more economies would de-regulate and join the World Trade Organisation (WTO).

Scenario 2 – Post-industrial revolution

The economy takes a less forceful role in determining our lives and both political and civil institutions such as NGOs take a stronger role. The world is less global, more stable and countries retain strong national identities. In this scenario Iceland would still be Iceland.

Scenario 3 - Rough neighbours

The 'rough neighbours' scenario could be described as 'faster, faster, bang'. The key feature of this scenario is widespread, low intensity conflict. There is 'a West' versus 'the Rest' ideological struggle and even within the West and the Rest there is conflict between nations (the US is at odds with the EU). Within nations there is conflict as a narrow economic base creates disparity leading to civil disruption such as crime and violence.

You are probably thinking how much the world has already gone towards 'rough neighbours'. Economically 'faster, faster bang' could not be a more accurate description of the decade. The world economy literally crashed in 2007 and the crash was all the more dynamic because of the immense speed we were moving at.



Table 1 (opposite) gives some clues about what the future holds. The figures reveal that by 2030, the average Western child will be a little more than four times richer than the average child in 'the Rest'. Currently Western children are nearly seven times richer than those in 'the Rest'. The world will become more equal. This is the reversal of the trend of the second half of the 20th century which saw two decades of increasing global inequality. The primary driver of this inequality was capital. In the UK there was an eight-fold increase in the value of fixed capital per person – from $2,000 to $16,000 in real terms. This increased output per worker made us richer.

The second driver of inequality was education. In the UK in 1950 the average worker had completed 10 years of education. In 2000 it was 15 years. In the US the figure for fixed capital per person was $30,000, nearly twice the UK level in 2000 and for 'skills', ie, education, it was 20 years.

The table shows that the UK and America will stay rich countries, in terms of standard of living, but the UK is also still a rich country in terms of standard of living. Its relative position from 1950 to 2000 did not fall very much on this measure. Nevertheless the UK stopped being a superpower at that time, as America will start to do from 2010 – 2030.

Table 2 (opposite) doesn't look at Gross Domestic Product (GDP) per head, but GDP per country. It is this which confers superpower status; and with it the political and cultural domination that shapes the way the world works.

Table 2 defines power not standard of living. It shows the high point of US power was at the end of the century, ie from 1990 to 2000. Having declared victory over communism economically and politically in 1990, the US had slightly less than a quarter of the world's GDP.

By 2000 the US was richer than the whole of Western Europe for the first time in peace-time history, but 2001 was the last time ever that the West as a whole will be the dominant economic force globally. China is now at the start of 2010 a G2 economy. In 2030 it will be a G1 economy. China will be the global superpower. China knows it and understands it. The US knows it and business knows it. China will be five times the size of Japan, three times the size of the whole of Latin America; and twice the size of India. This century is China's century.

So what we are seeing now in our 'rough neighbours' window on the world is the kind of disorder that accompanies the transfer of superpower status. For instance, when the shift was from Great Britain to the US, the process began in 1900 and took two World Wars and a global depression – effectively writing off the first half of the 20th century. American poet Robert Lowell once described this as "our worst century ever". Since 2000 the main changes in the world have been towards Rough Neighbours. For example 9/11 is the abiding image of the decade and set off the first World War of the century: the Global War on Terror. The US and China are locked in a power struggle over the value of the Chinese renminbi (RMB) , which America wants to revalue. If we can manage the transfer of power to China in a way which is both peaceful and prosperous, then our economic prospects are astonishing. By 2030 China will have built 50 new cities, each with 10 million people in them. The impact of this culturally, economically and politically is immense. It is something we have never seen before. For the first time since industrialisation 250 years ago, the world's dominant economic and political force will be non-Western, non-Christian and possibly non-democratic. MF

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Table 1: GDP per capita (in 1990 US Dollars)

	1900	1950	1990	2001	2030
W Europe	2,893	4,579	15,966	19,256	30,503
USA	4,091	9,561	23,201	27,948	44,286
*Other Western Origin	3,435	7,424	17,902	21,718	42,694
Japan	1,180	1,921	18,789	20,683	32,774
"West"	2,952	5,649	18,781	22,509	35,932
E Europe	1,438	2,111	5,450	6,027	12,334
former USSR	1,237	2,841	6,878	4,626	9,508
Latin America	1,109	2,506	5,053	5,811	8,949
China	545	439	1,858	3,583	11,174
India	599	619	1,309	1,957	6,103
Other Asia	802	918	3,084	3,997	12,465
Africa	601	894	1,444	1,489	1,987
"Rest"	749	1,091	2,713	3,377	8,304
World	1,262	2,111	5,157	6,049	11,689

Table 2: GDP per entity (billion in 1990 US Dollars)

	1900	1950	1990	2001	2030
W Europe	676	1,396	6,033	7,550	11,964
USA	313	1,456	5,803	7,965	15,851
*Other Western Origin	34	180	862	1,190	1,914
Japan	52	161	2,321	2,625	3,975
"West"	1,075	3,192	15,020	19,331	33,704
E Europe	102	185	663	729	1,480
former USSR	154	510	1,988	1,343	2,805
Latin America	72	416	2,239	3,087	5,960
China	218	240	2,109	4,570	16,504
India	171	222	1,098	2,003	8,630
Other Asia	116	361	3,099	4,908	17,775
Africa	66	203	905	1,223	2,622
"Rest"	899	2,137	12,101	17,863	55,776
World	1,974	5,330	27,122	37,194	89,480

Source: Professor Angus Maddison (2005)

