The Decline of the West, Rise of the Rest: Preparing for the Challenges Ahead

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Both global economic and political systems are undergoing dramatic changes; and the general pattern is that the influence of the West is declining and that of the developing world is increasing. In many ways this is a natural process: that being it is a return to longer-run historical norms and to a world that is more democratic and equitable. Obviously if one is from the West, one might regret the relative decline of one’s own country or region, and more importantly the loss of influence of one’s values in shaping world events. Nevertheless, there are fundamental changes bringing this about, and the focus must be on how to shape these transformations in a manner that best serves the interests of people throughout the world.

Let's begin by documenting and explaining these underlying trends and finish by discussing how they are impacting current institutions and policy-making.

Who is the West?

But first, let us ask: whom do we mean by the West? Certainly western Europe and its offshoots in North America, Australia and New Zealand should be included, but the degree to which others might be included depends on the time frame of reference and the particular topic under consideration. In 1900 central and eastern Europe and even Russia might have been included in this definition as these areas were integrated reasonably well with the rest of Europe and generally shared European values and customs. By 1960 this may no longer have been the case, but now in 2010 is it not the case again? Likewise Japan was really not part of the western political, economic and cultural systems in 1900, but has been integrated significantly since 1950 although some differences remain. Thus whether to include central and eastern Europe, the CIS and Japan in the definition of the West is a valid question and how it is answered may alter some of our assessments. Nevertheless, all three of these regions are likely to decline in relative economic significance over the next several decades and thus largely share the fate of the rest of the West, that being of declining influence.

The Rise and Fall of the West

Prior to the Middle Ages, economic conditions in the different regions of the world were much more similar than they are today.1 In fact in 1000 AD the per capita income of Asia, Africa and Latin America were equal to or even slightly higher than that of Europe. Interestingly, Europe’s share of the world population at this time was about 15 per cent, which is similar to what it is today. As a result Europe accounted for only about 15 per cent of world GDP and the developing world approximately 85

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1 Much of the data used in this paper is drawn from numerous works of the recently deceased Angus Maddison of the OECD.
Asia accounted for over two-thirds and both China and India had a larger GDP than all of Europe.

However over the next 800 years per capita income levels in Europe began to slowly grow while they remained largely stagnant in the rest of the world. By the time of the industrial revolution (i.e., 1800 AD) per capita income levels in Europe were twice that of the rest of the world. However even then, today's developing world accounted for two-thirds of world GDP and Asia alone accounted for over 50 per cent.

Between 1800 and 1950 world growth began to accelerate, but Europe and its offshoots in North America grew twice as fast as the rest of the world, and as a result by the time of the Second World War, their per capita income was approximately six times higher than in the developing world. By 1950 the economies of the West accounted for over two-thirds of world GDP although they had less than a fifth of the world’s population. It was this higher level of income and the technological prowess associated with it, which gave the West undue influence in the 20th century and allowed these countries to dominate the global institutions that were created after the Second World War.

In the last half of the twentieth century, per capita growth rates in the developing world increased dramatically and came to equal those in the West. However, population growth was twice as large in the developing world so that their share of world income began to progressively increase. Thus from the very beginning of the creation of the global economic and political systems of the post-World War II world, the West’s share of the two key variables that account for global influence, population and GDP, began to decline.

Thus the theme of this session – the decline of the West - is not a new phenomenon; it has been with us throughout the post-war period. What is new, however is the speed with which it is occurring. The degree to which this decline has speeded up and when this began to happen very much depends on who is included in the definition of the West. If we include just Japan then the share of the West of global GDP has declined from 60 per cent in 1950 to 48 per cent today. However it took 44 years for the first half of this decline (i.e., 60 to 54 per cent) but has taken only 16 years for the second half. And economic projections out to 2030, show that the West’s share is likely to continue to decline and be only 37.5 per cent by 2030. Therefore its share will fall almost as much in the next 20 years as it did in the previous 60 years. Thus the speed with which the decline of the West has been occurring has been accelerating and will continue to do so. If central and east Europe and the CIS are included in the definition of the West, then the decline began to accelerate much earlier due to the poor economic performance of those regions in the 1980s but especially the 1990s during the transition crisis.

Who are the Risers?

With the decline of the West, and the rise of the Rest, who are the Rest that actually rise? Focusing on the anticipated changes in GDP between 2001 and 2030, it may come as a surprise to many that in terms of global shares of GDP, it is not just the decline of the West, but there is also a decline of central and eastern Europe, a decline of the CIS, a decline of Latin America, and a decline of Africa. The only
region whose global share of GDP increases is developing-Asia. China, India and the ASEAN countries all experience large increases in share. Thus while the West experiences a decline in its share of 14 percentage points, Asia increases its share by 17 percentage points. Therefore the name of this session could reasonably have been, *The Rise of Asia and the Decline of the Rest*. It should be noted that although population growth is expected to be higher in Asia than in the West, the largest factor explaining the higher growth of Asia is due to its faster per capita income or productivity growth. By 2030 developing Asia will account for almost one-half of global GDP, this is about the level this region had in 1850. Thus as already explained, this is not a brand new phenomenon but should be thought of as a return to a longer-run “equilibrium”. This percentage is also about what the West had in 1900; thus Asia’s economic weight in 2030 will be what the West had in 1900. In terms of individual countries, the GDP of China and the US will be roughly similar in 2030, while the EU will have slipped to about three-quarters of their size.

All of the non-Asian developing regions are expected to grow marginally faster than the West between 2001 and 2030, so they are declining slower than the West, but nevertheless their global share still declines. For the two largest and most important regions, Africa and Latin America, the reason their GDPs grow slightly faster than the West is due entirely to their faster population growth; in fact, their per capita incomes relative to the West actually decline between 2001 and 2030. The faster growth of central and eastern Europe and the CIS (relative to the West) is due entirely to increases in productivity, since these regions experience no real population increase (while the West does).

Although there may be significant lags, economic power usually translates into military power and political influence. Thus the rise in the economic importance of the developing world, and Asia in particular, will mean a rise in their military capabilities and in their political influence.

**The Asians Have Different Interests from Westerners**

In addition to this shift in economic weight, there is another equally important change that has and will continue to occur as part of this process. That is, that the Asians whose economic weight is increasing are fundamentally different from the Westerners whose economic weight is declining. They are different in that they are on average much poorer. In 2001 the average Asian had only 15 per cent of the income of a Westerner, while in 2030 after three decades of faster productivity growth, their per capita income will still be only 28 per cent of a Westerner. Thus the Asians have different interests and values, not just because they come from a different culture but because their economic interests are fundamentally different. The importance of this is already evident in regards to a number of important global issues. How best to address climate change is one obvious case. In addition, when income levels vary, issues of equity and fairness are likely to be raised as well. Once again climate change offers an excellent example. Asia’s different position from Europe’s is not just that they place more emphasis on economic growth because they are poorer, but because they view that the West has a greater responsibility to address climate change because of their higher income levels and higher emissions per capita (in addition to the fact that Europeans have been polluting longer).
It should be pointed out that throughout the 20th century, the region (i.e., the West) that economically dominated the world was the richest, in fact many times richer than all the rest, but once Asia takes over from the West in about 2020, that will no longer be the case. In fact Asia’s per capita income in 2020 will likely be below the world average. Thus the major economic powers will not be the rich but will be from the lower-middle income group. Besides from having a lower income level, Asian values and interests differ from Western ones in other areas as well. This may be due to different historical or cultural factors or may be the result of geographical factors such as the size of counties or the abundance of resources.

What this suggest is that this redistribution of global power means that not only will the people at the decision-making table be different, but they will have different values and interests than those that they replace; and that these differences between the participants at the table will be greater than before.

There are undoubtedly numerous consequences of having the center of global economic power shift from the rich to the middle-income. For example, the focus of global economic policy may shift from preserving wealth towards redistributing it. Perhaps there will be a shift from quality-of-life issues to more emphasis on increased output. Maybe there will be less concern about inflation and more about growth. There is nothing surprising about this, if a national government run by a party whose members are primarily affluent is replaced by a party whose supporters are workers and labor unions, the policies of the government change. So will it be with the management of global organizations. Thus global institutions must be adaptable in a way that facilitates the transfer of power, and they must also be prepared for the changes in objectives that are likely to accompany this transfer.

As a practical example, the issue of IMF governance through quota allocations has been a quite controversial topic. It has been the case for some time that the West is over-represented in the IMF if weighted by real income, and overwhelming so, if weighted by population. There have been some recent redistributions of quotas but they continue to lag changing economic realities. The developing world wants more representation at the IMF, not because they want power for power’s sake, they want to change policy. There is a widespread belief that if the developing countries had more say-so that IMF policies and procedures would be significantly different -- more growth oriented to be specific. Most have considered the attempts by Europe to hold on to its control as simply reflecting a tendency of those with power not to give it up; but perhaps the Europeans were more insightful than commonly appreciated and realized all along that the IMF would be needed to rescue the eurozone.

Achieving Consensus when Diversity Increases

As influence shifts to Asia and, as a result, the diversity of views increases, it will be harder to achieve a consensus. Nevertheless, with technology and globalization increasing the inter-connectiveness of the world’s people, the need for co-operation and concerted global action will only increase. Given these two countervailing trends, what will be required is innovation in the institutional arrangements for global and inter-governmental governance.
During the recent global economic crisis the most important grouping for formulating international economic policy shifted from the G-8 to the G-20. This structure has proven to be rather flexible in adapting to changing circumstances. It really started out as the G-5, known then as the Library Group, in 1974 but was quickly enlarged to the G-6 in 1975 by adding Italy and to the G-7 in 1976 when Canada was added. Russia was added in the 1990s to form the G-8. The G-8 accounts for 44 per cent of world GDP but only 14 per cent of the world’s population. By contrast the nineteen members of the G-20 account for 75 per cent of world GDP and this increases to 85 per cent if the 20th member, the EU, is included. More importantly, 67 per cent of the world’s population is included in the G-20. Therefore the creation of the G-20 not only addressed the changing balance of economic power but made it far more representative of the world’s population.

Increasing representation turns out to solve a major stumbling block in terms of redistributing political power. History has shown that there is generally a trend for those with influence to try to hold on even when their economic importance declines. This has been a key theme in British history. Adjusting the G-8 to the new economic realities would have meant that Italy and Canada would have to have been booted out to make way for China and India. And within a year France would have to be dropped to make way for Brazil. This would have been extremely difficult, so it is much easier to increase the size of the group. This procedure has the added bonus of making the group more democratic. This procedure of enlarging a group as a way of not only increasing representation but also of redistributing power may be an approach that will be more widely applied. The United Nations Security Council may be such a case. There may be a possible "representation" downside to the rise of the G-20 and that might be that it will be used instead of the United Nations (i.e., ECOSOC); previously in order to get the participation of the developing world the advanced economies might work through the United Nations, but now they have an alternative framework in which to engage with (a significant portion of) the developing world.

There is a cost to making groups larger, however, in that they become more difficult to coordinate and manage. That’s why there are small groups to begin with. The degree to which this becomes a problem will have to be studied by political scientists. However, we know from the experience of the European Union that enlarging a group requires that its institutional procedures and structures have to be altered. For example, as the membership in the EU has grown more decisions are being made by qualified majority than consensus.

The rise in Asian influence will not just be observed in their representation in global organizations and such, but will manifest itself in numerous less obvious ways. Success generally brings admiration and influence on its own. For instance, the success of the Asian economic model of government-directed export promotion first developed by Japan and followed by Korea, the Asian tigers and China is replacing the Washington consensus as the best development model. This kind of demonstration effect is likely to have more impact on the direction of global development than will increasing Asian voting shares in the international financial institutions.

Although there are many differences between the West and Asia, there are many similarities as well. Given that all humans have many of the same basic needs and wants, and all share a common planet, there are an extremely wide range of issues
and actions for which all of mankind should be able to easily agree upon. However, at
the margin there are differences and these must be recognized in order to manage
them in an appropriate way. If everywhere people were essentially the same, global
governance, coordination and cooperation would not be as difficult to achieve as
revealed clearly by history; and there would be no implications for the decline of the
West since the new players would be essentially identical to the old ones.

The World Is Not Zero-Sum Game

Finally it must be recognized that the concept of a *Decline of the West* is based
upon a political or geo-strategic orientation. These are basically zero-sum
frameworks. For many of the major challenges facing mankind, especially the
economic ones, there is no zero-sum limitation. The economic future is really not
about the decline of the West, but about the upward convergence of the developing
world to a higher and higher quality of life. The future of mankind, both in the
advanced and the developing economies is likely to be about higher standards of
living, more tolerance, more democratic processes, and more freedom -- more of what
has been central to Western values and objectives. Thus to characterize this process as
a “decline of the West” is in many ways a misnomer.