

Chapter XVI

Civilization Market Integration

INTRODUCTION

The purpose of this chapter is to define the dynamics of the economic infrastructure, which supports any civilization and defines the *modus operandi* of the world civilization in the 21st century and third millennium.

This chapter especially addresses the economic roles of two countries/civilizations: Will the Chinese economy, as many suggest, continue its strong economic advance under its system of “authoritarian capitalism” and surpass in size that of the United States and its economically integrated partners (currently NAFTA), or will China convulse and stagnate? This chapter explores the scenario that the United States will see its destiny at the heart of a free trade area of the Atlantic with an economy significantly greater than China’s and with an even larger population. China will remain the dominant Asian economy, but it will do so independently, not as part of a regional economic union.

The future of capitalism is also addressed. What kind of capitalism or other economic system must be applied in order to keep the world population within the threshold of the Ecosystem? The answer to this question will determine the future of civilization.

THE EVOLUTION OF CIVILIZATION MARKETS

Why are some nations rich and others poor? Why are the poorest countries failing and what can be done about it? Why can the poor countries not apply the rich countries’ strategies to achieve the same level of living? There are many possible approaches to answer these questions, many exclusive of each other. In this study, the civilizational conditioning of economic development will be synthesized.

In 2005, the average income per capita of residents of the United States was \$41,950 (in *purchasing power parity* (ppp) = common basket prices). In Switzerland, the most prosperous European country, it amounted to \$37,080 (ppp). For the European Union this income reaches \$28,915 (ppp). For China, this income was at the level of \$6,600 (ppp), while in Hong Kong it was \$34,670; in also Chinese-oriented Singapore, it was \$27,780. But in African Malawi, it was only \$650. (World Bank, 2007, pp. 14-16) Why?

As of the beginning of the 21st century, there are about 50 economically-failing states, which pose the central challenge of the developing world. The standard solutions cannot overcome problems with civil wars, a dependence on the extraction

and export of natural resources, and bad governance (Collier, 2007). Perhaps these problems are conditioned by each civilization's history.

The focus of this part of the study will be on a few civilizations only, those which are the most eager to dominate economic development in the 21st century and beyond. Figure 16-1 illustrates these civilizations' development paths, which lead to the competition of the Western and Chinese civilizations in the 21st century.

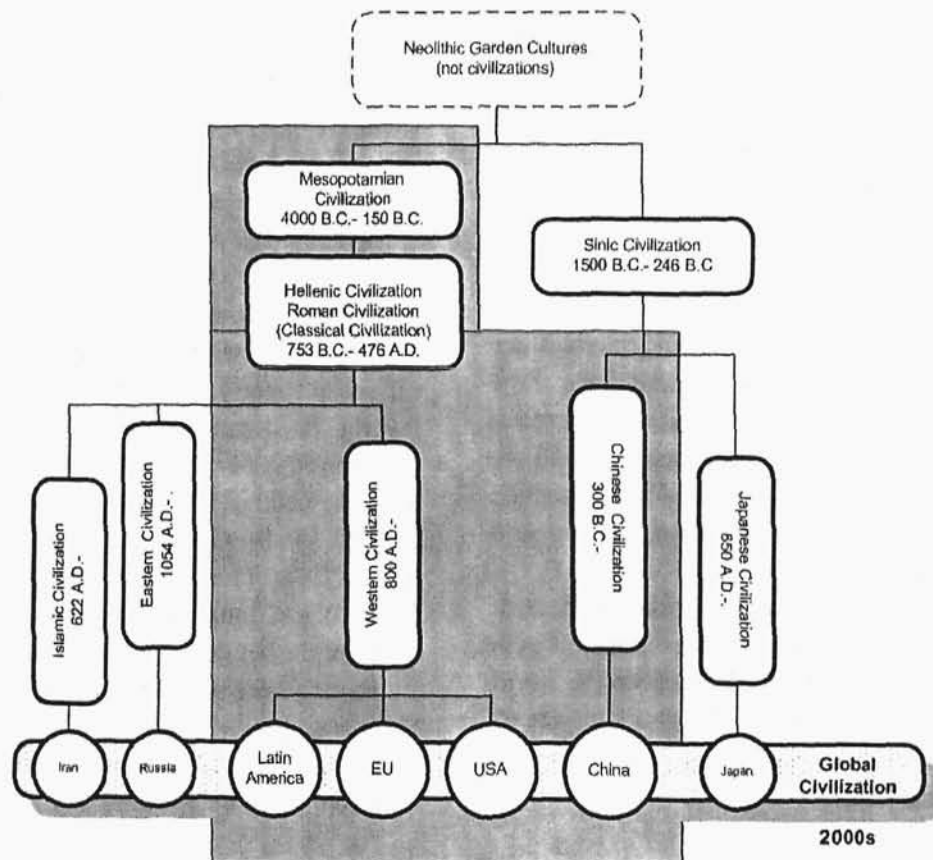
Classical economics defines as determinants of economic development the factors of production, such as land, labor, and capital, economic structure (relationships among various sectors of the economy), production systems, and pro-

ductivity. In this study more attention will be paid to such factors as information-communication and knowledge, since it is these mind-driven factors that mostly determine the complexity and productivity of production systems.

Economic development in pre-civilized times was based mostly on recurring rounds of feast and famine, depending on natural variations in climate and on skill and luck in hunting. Life was certainly difficult, rough, and short. Average life spans were not more than about 20 years; few people could survive over the age of 50 (Leakey, 1996).

Due to improved climate after the end of the Ice Age, since 9,000 B.C. people have transformed from nomads dependent on hunting and gathering

Figure 16-1. The basic evolution of civilizations which are the foci of this study of the market development until after 2000+ (many other civilizations are not shown in this model)



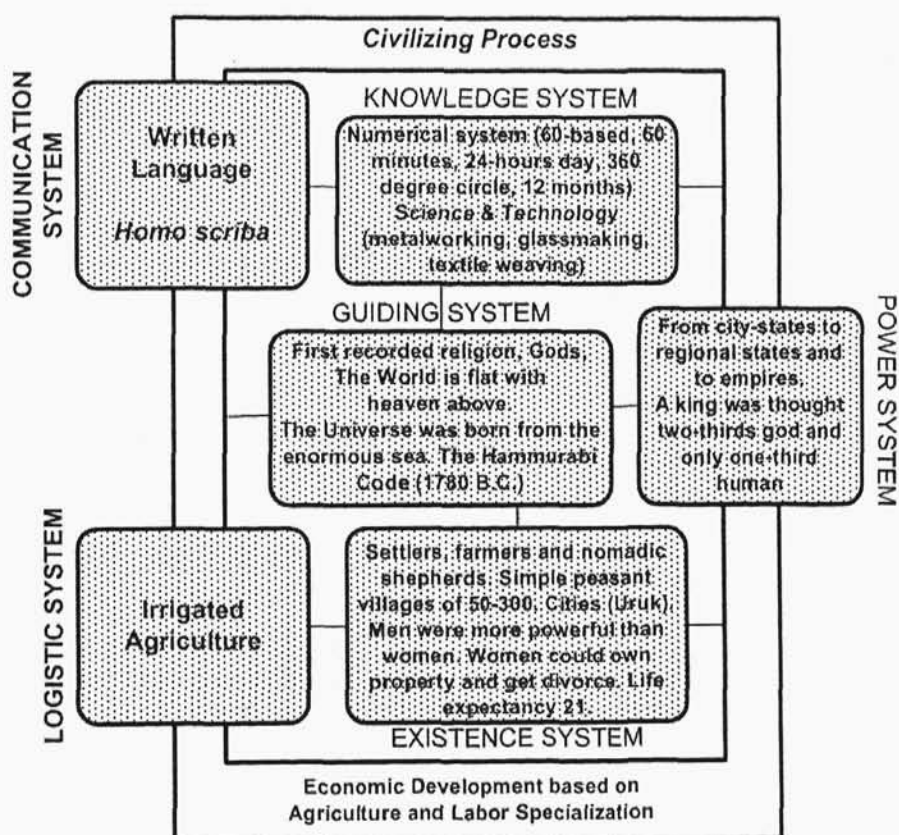
to settlers developing agriculture and domesticating animals. These inventions allow people to store material goods and wealth. People became more productive and innovative, which led to the development of irrigation systems and division of labor as well as to a necessity to protect wealth. The last factor eventually led to the emergence of the first cities, city-states, and empires, to civilization with its rules, elite, administration and military.

As the first civilization, the Mesopotamian civilization (in the Tigris and Euphrates Valley, nowadays Iraq) had key characteristics that are shown in Figure 16-2.

The Mesopotamian civilization could be more successful and better organized than “Neolithic garden cultures” (Quigley, 1979) because its elite could communicate through a written language. Writing developed into an efficient tool to stabilize and implement law and organize expeditions, whether for trade or conquest.

Agricultural and labor specialization was the Mesopotamian civilization’s major contribution to economic development. This lasted for thousands of years and eventually gave birth to the next, more advanced, Hellenic civilization. This was very rich in new ideas, which lasted almost until now.

Figure 16-2. The Mesopotamian civilization system (key characteristics)



The relationship between communication and logistic systems was not critical in directly supporting economic development of the Mesopotamian civilization. Its influence was indirect through the power system, which was first developed to protect wealth creators, who triggered the development of irrigation systems in order to increase the productivity of cultivated land.

The Mesopotamian civilization led to the development of several short-lived civilizations. Eventually, this process triggered the rise of Hellenic civilization, with contributions that are still valid. The key characteristics of this civilization are shown in Figure 16-3.

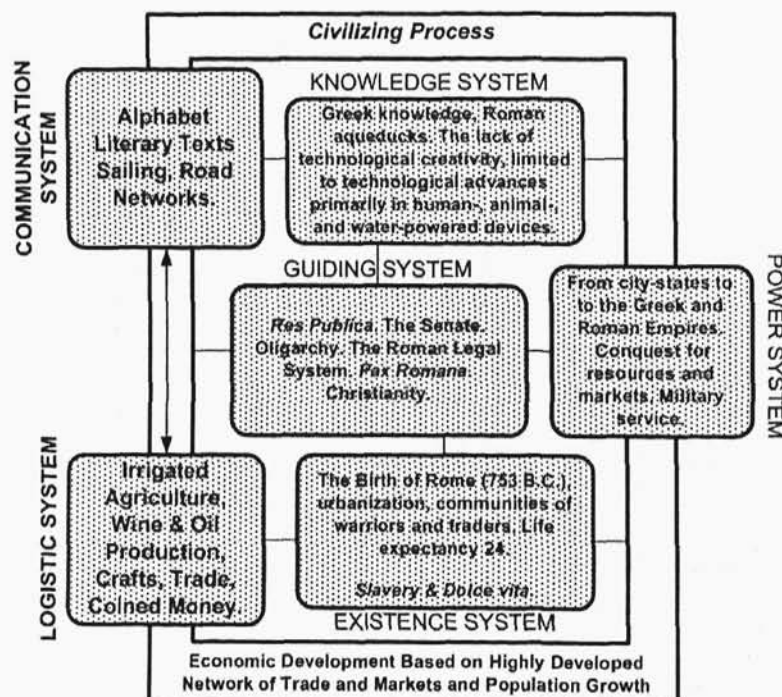
From the point of view of economic development, the shores of the Mediterranean Sea, occupied by the Greeks and later by the Romans, were convenient for the expansion of highly developed trade networks, opening new markets for this civilization's products and services. Population

growth was also creating demand for more goods and was supporting trade networks to provide them, which eventually led to the invention of coined money.

The relation between the communication and logistic systems began to play an important role from this time. Land- and sea-oriented transportation roads and systems thereof were developed to support growing trade with all corners of the Roman Empire in Europe, the Middle East, and Africa. The power system was driving economic development by expanding new markets for Roman traders.

Growing use of slaves and servants, who were the most productive workers of the times, led to a passiveness of the elite and in consequence to the lack of technological creativity, despite the brilliant development of arts and literature. The elite were concentrating on war, government, arts, and, famously, on *la dolce vita*. This kind

Figure 16-3. The classical civilization system (key characteristics)



of society could not produce sustained economic development. By the year 200 A.D. the Roman Empire's military was unable to keep extending new markets and providing new supplies of slaves. The craftsmen began leaving towns and returning to the countryside, where a strategy of self-sufficiency was applied by the landlord class. A long economic depression began and the government's actions were directed increasingly toward enlargement of the bureaucracy and increasing tax collection. Trade consequently began to decrease sharply and Rome's balance of trade became unfavorable. The civilian landed class was gradually replaced by military anarchy; violence, grasping materialism, and ignorance were prevailing. At the bottom of the society it led to dark superstitions and exalted spirituality, which was steadily replacing the classical ideas. As Quigley stated (1979, p. 328): "without its ideology no culture can survive."

The fall of the Roman Empire in the west, conventionally dated 476 A.D., was the death of Roman civilization and coincided with an influx of barbarian peoples from northern into southern Europe. The next 300 "dark" years (500-800) served as a kind of buffer zone in which three new civilizations were forming, eventually becoming the Islamic (622 A.D.), Western (800 A.D.), and Eastern (1054 A.D.). Other civilizations appeared in the coming centuries and have lasted to now.

Let us further focus on Western civilization's impact on world economic development.

In terms of economic development, the Western civilization has lingered through two millennia. According to the monumental statistical work of Maddison (2001, p. 17), in the past (second) millennium, the world population rose 22-fold, per capita income increased 13-fold, and world GDP nearly 300-fold. From the year 1000 to 1820 the advance in per capita income was slow; the world average rose only 50%. Most of the growth went to accommodate a fourfold increase in population. Since 1820, world development has been much more dynamic. Per capita income

rose more than eight-fold, population more than five-fold. Life expectancy has risen 3.3-fold, from 24 years (1000) to 80 years (2005) (World Bank, 2007, pp. 28-30).

The economic development of Western civilization in its 1200+ years of existence was based on the following factors (Maddison, 2001, p. 18):

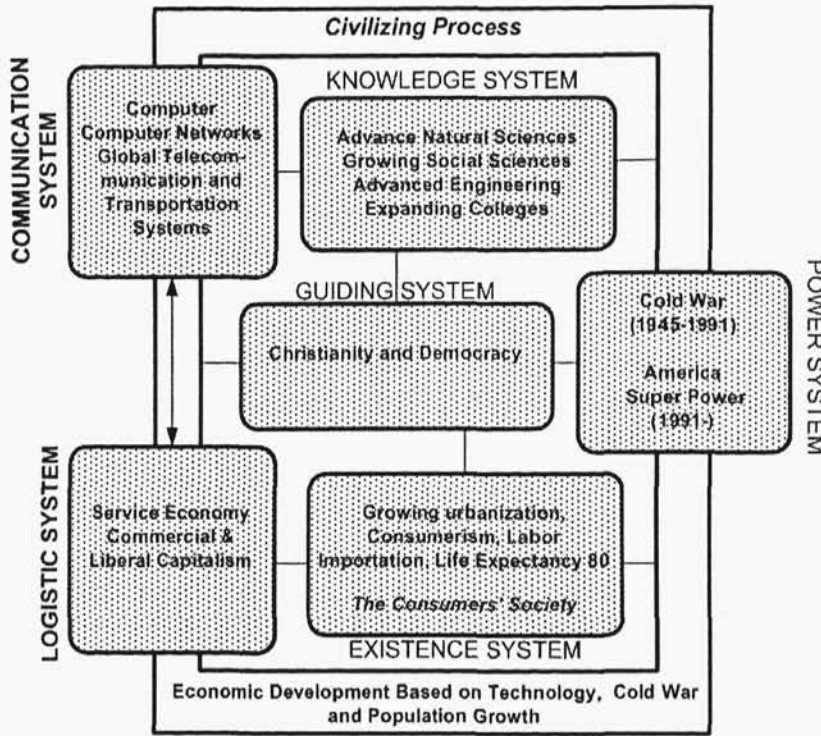
- (1) Conquest and settlement of relatively empty lands
- (2) International trade and capital movement
- (3) Technological and institutional innovations

The year 1820 was cited by Angus Maddison as the year of accelerated change in the world's economic development and is associated with the rising importance of the industrializing United Kingdom, then the leader of the Industrial Revolution. Shortly afterward, the British adopted a policy of free trade, and their willingness to import a large part of their food had positive effects on the world economy and the diffusion of technical progress.

The civilizational approach herein employed recognizes not two (as defined by A. Maddison) but three phases of Western civilization, driven by different ideas of economic development:

- Phase I – driven by the feudal system and merchant capitalism (800-1820)
- Phase II – driven by commercial capitalism (1820-1990s), although, particularly in the U.S., such forms as "*robber baron capitalism*, *regulated capitalism* (after 1910), *managed capitalism* (New Deal), and *liberal capitalism* were impacting *commercial capitalism*
- Phase III – driven by *managerial*, *global*, and *super capitalisms*, is motivated by the globalization of world markets, which was made possible by the expansion of the Internet in the 1990s

Figure 16-4. The Western civilization system in the 1990s (key characteristics)



The key characteristics of the Western civilization in its second developmental phase (1820-1990s) are depicted in Figure 16-4. From the civilizational point of view, the economic success of Western civilization in these times was due to the three factors defined by Angus Maddison and also to three other factors:

- (4) Christianity and its wing Protestantism, which glorifies a cult of hard work
- (5) Democracy, which liberates individuals from the "collective" and gives them freedom in economic decisions, guided by an *invisible hand* in the marketplace
- (6) The Cold War (1945-1991), which through the confrontation of *democracy* with *communism* enhanced the well-being of Western civilization

In comparison to the Hellenic and Roman civilizations (also known as classic civilization), the Western civilization transformed regional transportation systems into the global transportation system. Handmade products have been replaced by machine-made products. Furthermore, information processing was mechanized first by punched-card machines, later by computers and their networks. All these improvements increased dramatically humans' economic productivity. These technological gains based on machine, computer, and networking provided a very strong foundation for the development of the third phase of Western civilization, driven by globalization, which is accelerated by the use of the global Internet. This phase "flattens" the world and triggers the rise of a new system which we call global civilization (see Chapter I).

THE WORLD IS “FLATTENING”

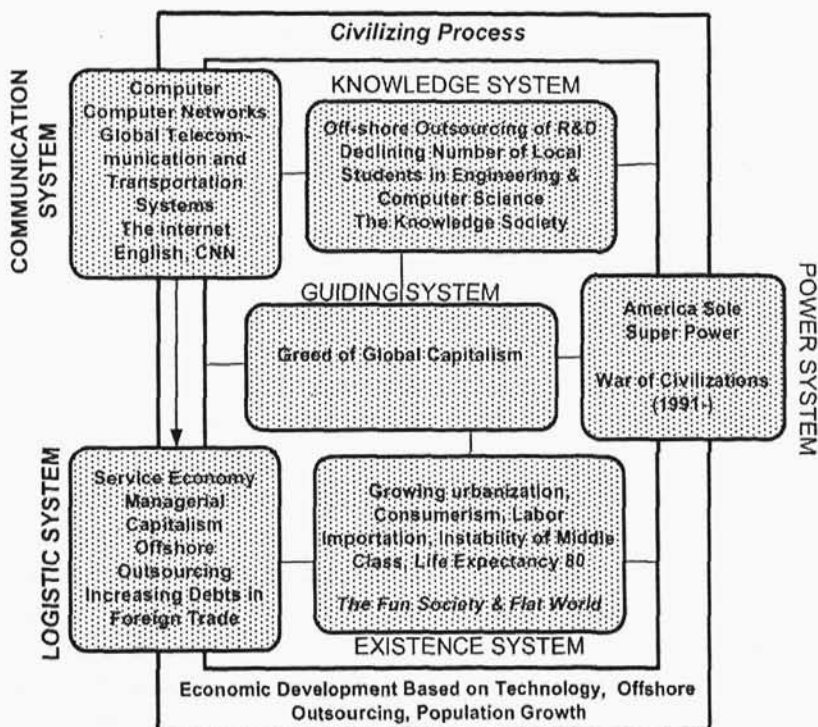
Electronic mail supported by the Internet has made distance “dead” and allowed India and China, and many other countries with cheap labor, to become part of the global supply chain for services and manufacturing. It created an explosion of wealth in the middle classes of the world’s two most populous nations and gave them a huge new stake in the success of globalization and a special role in the global civilization. The key characteristics of the Western civilization in its third, globalizing phase (1990s-) are depicted in Figure 16-5.

The global civilization System shown in Figure 16-5 is mostly driven by the global communication system and by *managerial* and *global*

capitalisms, which at this time are guided by the greed of global investors and fat bonuses given to CEOs for their decisions to move factories to countries with cheap labor. The politicians are reluctant to regulate illegal immigration to the U.S., since imported workers work almost like slaves, bringing good profits to employers. The middle class is destabilized and shrinking, not much aware what is going on, since the government is constantly saying that globalization is good for America. In fact it brings about \$500 billions/year in gains, but most of this is taken by 0.6% of the labor force (Scheve & Slaughter, 2007).

Thomas Friedman noticed in his best-selling book *The World is Flat* (2005), that along with the transfer of services and manufacturing from the developed to developing nations, there also

Figure 16-5. The global civilization system in the 2000s (key characteristics)



takes place a transfer of wealth. As a result of it, the world is becoming economically "flat." It is interesting to notice that the main tool of this flattening process is the Internet, which was not developed because it was financed by wise capital, as is true in many other technologies. In fact, the Internet was developed by the military and scientific communities. The latter have played an even more important role in implementing "World Wide Web" technology and very user-friendly browsers (Mosaic and Netscape). But business immediately recognized its great potential for global instant communication and feasibility for off-shore outsourcing of services and manufacturing and even R&D, since the distant locations could be communicated to in just a few seconds and materiel could be delivered by the global transportation system and business transactions could be handled by the global finance system very effectively.

With the new feasibility of outsourcing jobs off-shore and the free trade policy of the global economy, more and more businesses are closing up shop in the United States (and in Germany and the United Kingdom as well) and moving elsewhere, taking millions of jobs with them. The result is a sharp drop in Middle America's standard of living, which was a fruit of 200+ years of the American way of handling economic development. Suddenly, these two hundred years of steadily climbing to the highest standard of living (by a large country) in the world have been put into reverse gear and may be leading to a big crunch of the American middle class. This leads to a national divide between the global elites and those who have been left behind.

By exporting jobs to Asia and Latin America, the corporate elite is destroying the American dream and profiting from the exploitation of sweatshops. Abandoned by their government, American workers are being forced to compete with cheap third world labor and inevitably are losing out (Buchanan, 1998).

Faux (2006) even argues that the politics of the new world market is dominated by a virtual "Party of Davos," the globe-trotting network of corporate investors and CEOs, politicians and journalists who work on their behalf. He also shows that NAFTA, the WTO, and similar "free trade" agreements are really deals among the global elite to rip up the social contract that used to allow the benefits of *commercial capitalism* to be broadly shared. Commercial capitalism is transforming into *managerial* and *global capitalisms* and the WTO is elaborating the Bill of Rights to protect "one citizen," who is the large stateless corporation.

Global and stateless corporations are profitable, but the competitiveness of the people, business, and communities rooted in the U.S. economy is relentlessly deteriorating. American (and to a certain degree English and German as well) workers, from the unskilled to highly educated engineers and research scientists, have been set adrift in a sea of dog-eat-dog competition that guarantees a substantial drop in their living standards (Faux, 2006).

Outsourcing and off-shoring are really nothing more than traditional market competition expanded in a global economy, and enabled by an increasingly robust information infrastructure. Market economies are relentless in their drive for efficiency and productivity. Historic barriers of transportation logistics, off-site management, and knowledge transfer have been greatly reduced by information and transportation technologies. There are obvious short-term financial benefits available to companies by moving well-defined systems and processes to lower-cost areas of the world. Short-term effects on developed societies are less attractive than they are to companies with fewer available jobs and fewer opportunities. Long-term consequences for everyone are open to debate, and potentially foreboding.

In the present decade, an estimated 12% of American companies are sending manufacturing jobs to foreign countries. About 3 million direct

manufacturing jobs have been lost in the United States with 4-5 million support jobs disappearing with them (ACCRA, 2004). Many U. S.-based airlines are linked via computers and telephone lines with reservation clerks in Ireland where labor costs are lower than in the U.S. and education level is high. Many American computer firms have technological support in India. There is less current demand for engineers, IT students and MBAs in the United States. The middle class is shrinking even as healthcare and energy costs are rising rapidly. Greed appears to run rampant in corporate executive suites as dislocated workers struggle with unemployment and severe financial pressure. Annual trade deficits in the U. S. grew to about \$791 billion by the end of 2005 (World Bank, 2007, p. 248).

Forrester Research estimated in 2004 that American companies will move 3.4 million jobs off-shore by 2015. About a third of those jobs pay \$46,000 per year or higher (Atkinson, 2004). The labor organization AFL-CIO estimates that the United States lost about 2.7 million manufacturing jobs between January 2001 and August 2004 (AFL-CIO, 2007). The U. S. Government Accounting Office indicates that services associated with off-shoring grew from \$21.2 billion in 1997 to about \$37.5 billion in 2002, an increase of more than 76%. But exports from the U. S. of those same types of services also increased by over 48% (Hughes, 2002).

Now that the China price is impacting both the low-tech and high-tech sectors, politicians and U. S. workers are asking what industries will produce jobs for American workers to replace the ones vanishing to other parts of the globe. Innovation is frequently mentioned as the way out of the China price dilemma, but innovation is not something that can be delivered on a strict timetable. How much time do we have to shore up the American economy?

Can it be that the United States is pricing itself out of the global economy? Education is often proposed as a solution to the American

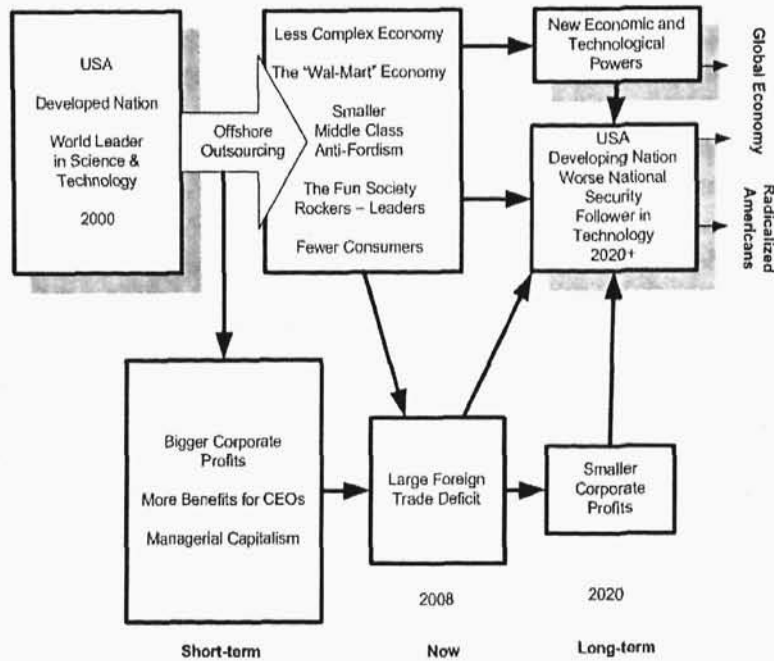
economic quandary. In his description of the growth of health services in India, Colvin (2004) states that U.S. physicians will not lose business due to some supposed inferiority in education. In fact, they are the best educated medical practitioners in the world. Their problem is that they are overpriced. Is this a race to the bottom, with continually declining wages and continually declining standards of living for most of the U. S. population? If American salvation lies in biotechnology and nanotechnology, we will be waiting a long time for its impact. But American workers must pay the rent or mortgage every month and eat every day.

Figure 16-6 describes the long-term effects of continued job losses from off-shoring. Short-term profits for U.S. companies improve from lower costs. But long-term effects of a less complex economy, resulting from the loss of the country's manufacturing base, the proliferation of low-paying service jobs, a shrinking middle class, and large trade deficits produce a new world economic order in which the United States will play a much less prominent role. In this scenario, the country that experiences a lower national level of personal security becomes a follower rather than a leader in technology and education, experiences a decline in standard of living for its citizenry, and has to contend with a much more radicalized political structure.

Some other issues generated by off-shore outsourcing are as follows:

- The outsourcing and off-shoring that the U.S. is experiencing today are akin to what happened at the turn of the 20th century when the U.S. ceased being an agricultural economy and became an industrial one.
 - The role of agriculture was not ended merely because productivity was increased.
 - Downgrading manufacturing means that potential intelligence and com-

Figure 16-6. A model of the consequences of offshore outsourcing for the U.S.



plexity in engineering and information technology are leaving as well.

- Americans are maintaining lifestyle by selling "reputation," for example, treasury bonds sold to foreign creditors. As "industrialists" the Americans used to pay in goods. Now they pay by debts. How long can that continue?
- The global economy is about free trade, and outsourcing/off-shoring is the 21st century face of free trade
 - Free trade is about exporting/importing goods at low tariffs, but is it also about exporting millions of jobs?
- Americans should just learn new jobs.
 - What jobs are available? The China price affects both low-tech and high-tech industries. Perhaps nanotechnology and biotechnology are an answer, but how many jobs will these emerging indus-

tries produce and how long will it take to develop them? They are still about 20 to 100 years away.

- Americans should move to more complex jobs.
 - Which more complex jobs? Before you can run, you need to learn how to walk. One cannot teach classical music if the symphony orchestra is in another country.

The following conclusions on off-shore outsourcing can be offered:

1. Outsourcing needs sophisticated management that balances short-term profit with long-term investment in competitive positions. *"The sky is no longer without limits."*
2. Off-shore outsourcing of manufacturing and information technology is a potential

strategic threat for the American economy and society.

3. Off-shore outsourcing is driven by "Lenin's rope." He observed as a lesson that capitalists will compete to sell their own hanging rope to their executioners.

A typical argument for globalization and off-shore outsourcing is that the American economy is transforming from industrial to service and the Americans have no other options but to learn new knowledge and skills and adapt to new challenges. Those who argue this way forget that the Americans never replaced agriculture by another industry; they only improved its productivity. Also, manufacturing cannot be replaced by life-science-oriented industry or by information technology. In fact, IT has no purpose if agriculture and industry are liquidated, since IT processes data/information about something "else." If this "else" does not exist, IT will follow.

If American wages continue falling, then protectionism will rise, which is a bad solution. Inequality in the U.S. is greater in the 2000s than at any other time in the last 70 years. To save globalization, policymakers must spread its gain widely. The best way to do that is by redistributing income through new formulas of taxation (Scheve & Slaughter, 2007).

Is it possible to redistribute income in the U.S.? Perhaps not. Saul (2005) thinks that we are seeing the collapse of globalism. Like many other geopolitical ideologies, it is dead, according to him. This is despite the near-religious conviction that nation-states are heading toward irrelevance, that economics, not politics or arms, will determine the course of human events, that growth in international trade will foster prosperous societies that will in turn abolish poverty and change dictatorships into democracies. Instead of surrendering or sharing sovereignty, governments and citizens are reasserting their national interests. This Canadian author argues that the United States appears determined to ignore its in-

ternational critics. Europe is faced with problems of immigration, racism, terrorism, and renewed internal nationalism. Elsewhere, the world looks for answers to African debt, the AIDS epidemic, the return of fundamentalism and terrorism, all of which were supposed to disappear because the rising global prosperity will eliminate them.

To make globalization work, one must democratize international institutions, argues the Nobel laureate Joseph E. Stiglitz (2007). His list of necessary changes is good but very long, but it is possible if done through a coordinated international political process. However, as is very well known, such a process is very hard to imagine in the immediate future.

From the international point of view, the fact that the Americans are worse off due to globalization is not a problem. There is an opinion that this situation may be only the correction of historic exploitation of poor nations by the Americans. If this is true, is it possible in long-term perspective that the world will be better off if Americans are worse off?

How long can the Americans pay their foreign trade debt by "credit cards?" In 2006, its accumulated value (from 1985) reached \$6.6 trillion, which is 55% of GDP. The U.S.'s annual international trade deficit is 35% larger than social security spending, 50% larger than all defense spending, and 2.5 times larger than Medicare (<http://mwhodges.home.att.net/reserves.htm>). Can this debt ever be paid off? Is it not true that the U.S. has helped and does help other nations whenever it can? Is it not true that the U.S. used to lead the world mostly by the ideas of freedom, democracy and prosperity?

But it is also true that after the victory over communism and the terrorist attack on New York in 1991, and unsuccessful wars in Afghanistan and Iraq, the U.S. lost its "magic" touch and needs to restore America's right place in the world. From the civilizational perspective, the U.S. reminds one of the case of the Roman Empire, which collapsed due to losing control of its borders,

Table 16-1. Comparison of the Roman empire and the U.S. in times of crisis

Criteria	The Roman Empire 5 th Century A.D.	The United States The 2000s
Rulers	Insensitive	Arrogant
Politicians	Irrelevant	Self-serving
Elite	Passive	Detached
Military	Dispersed	Stretched-out
Work done by	Slaves & Servants	Computers Illegal immigrants-working like slaves Off-shore cheap labor
Ideas	Lack of ideas	Lack of ideas
Purpose of life	Dolce vita	The fun society
Mindset	Return to country-side and autarchy	Protectionist and besieged
Confidence by others	Falling & attacked and beaten by weaker forces	Falling; attacked by terrorists against whom we cannot win

giving work to slaves and servants, and finding “happiness” in *la dolce vita*. Table 16-1 compares both “Romes.”

This comparison of Rome I and “Rome III” gives the impression that the state of the global civilization is not good. It is unstable. To improve its well-being, the fixing of economic problems will be not enough. Certainly, the civilizational logistic system must first of all be controlled by the civilizational guiding systems. A proposal for a solution in this area is provided in Chapter VII.

THE CHINA FACTOR

The China factor in the 2000s is not new in world history. The Chinese civilization (one of the oldest) had more advanced technology than Europeans in the first 1.5 millennia A.D. They invented the magnetic compass and the art of making paper, which reached Europe with the help of Arabic merchants. They also introduced new crops, such as rice (double cropping), sugar cane,

cotton, citrus fruit, the watermelon, and many other fruits and vegetables. The manufacturing of silk cloth was originated in China at a very early date. Porcelain (“*china*”) was also invented by the Chinese. They used paper money before the Europeans. China’s ships were superior in technology to those of the Portuguese in the 15th century, more seaworthy and more comfortable, with watertight compartments, many more cabins, and a capacity to navigate over large distances to Africa, Southern Asia, the Indian Ocean, the Persian Gulf, and Indonesia. The Chinese reached a higher level of technological solutions well in advance of the Western Europeans.

The Mongol invasion of China in the 13th century affected Chinese progress. In 1433, the Emperor Xuande stopped long-distance voyages, ordered the destruction of ocean-going ships, and prohibited his subjects from traveling abroad. When the Great Wall (4,700 miles long and guarded by 1 million men) was rebuilt in the 15th century to protect against the next Mongol attacks from the north, it also put the Chinese civilization