

BOOK REVIEW
THREE BILLION NEW CAPITALISTS
The Great Shift of Wealth and Power to the East
By
Clyde Prestowitz (2005)

1. This book clearly points out that the news we get in North America today is not the real news. The real news is the serious flaw at the heart of the global economy, the uncertainty surrounding the US dollar, the loss of US financial sovereignty, the decline of US technological leadership, and the rise of China, India and the EU. These developments add up to a shift of global balance of influence away from the US.
2. US spending on R&D have declined in critical areas while other countries are picking up the pace.
3. More and more, the US deficit has to be financed with foreign capital.
4. The USA used to be a major food exporter; it is now a net importer of food. In 2005, for the first time since 1959, the USA is projected to run a trade deficit in agricultural products. On the other hand, the additional 3 billion people with rapidly rising income to the global system have greatly increased the demand for all kinds of agricultural products. How does the first world compete with the new emerging “third” world? Based on the current model, North America is not competing with the rest of the world.
5. There is a possibility that as the US \$ becomes devalued, that the Euro may replace it in the world markets. Russia is now shifting its monetary reserves from 70% US\$ and 30% to the Euro to the reverse.

6. The OPEC Countries have reduced their dollar holdings from 67% to about 50%. China and Japan are the biggest foreign holders of the US\$. They are getting nervous.
7. The collapse of the dollar and its consequent abandonment as the world's reserve currency would create a deep recession in the USA. Since the USA is the only major net importer, all the exporters of the world would suffer as well. This is why they are holding onto the US\$
8. Whether slowly or quickly, the forces now bringing wealth and power to the east will also bring crisis and painful adjustment to the west.
9. Although American corporations initially led globalization, they are no longer the only or even the dominant players.
10. Over the past two decades, China, India, and the former Soviet Union all decided to leave their respective socialist workers paradises and drive their combined 3 billion citizens onto the once despised capitalist road.
11. The irony here is that the winners of the Cold War were less prepared for victory than the losers were for defeat.
12. In 1415 China and India produced 75% of the global GDP. They lost this economic power and now are coming back to be the new world leaders after 600 years of impoverishment and servitude. China is now the world's second largest exporter just behind the USA.
13. China is the largest market for products like steel, aluminum, and cement and will be the largest for many other products. Consequently, supplies are getting short and global prices are rising.
14. In 1830 Latin America, Asia and Africa accounted for 61% of the world's manufactured goods; by 1913 that share was down to 8%.
15. In the early 1900's contemporary observers felt the world economy was becoming so integrated as to make its fracturing and war impossible. Sadly, WW1 proved them wrong. WW1, the Great Depression and WW11 put an end to globalization for nearly 40 years. Let's hope our world leaders show more sense going forward.
16. Gold was the currency of the first wave of globalization between 1414 and 1914. From 1947 to 2000 it was the US\$. What about the future?

17. Europe and Japan focused on saving, investing, producing and exporting, America's growth policy was one of borrow, spend and consume.
18. There is no market discipline in the US. It can ignore saving, budget deficits, and competitiveness issues as long as it can print dollars and have them accepted by the rest of the world.
19. Without some development in manufacturing, the only way out of the US trade deficit is a significant cut in consumption.
20. China has become the location of choice for global manufacturing, while India is becoming the destination for software development and services. Many of the world's major corporations are flocking to these two countries by choice and necessity.
21. Advanced country workers with the same skills as Chinese and Indian workers will not be able to compete unless they are willing to accept Chinese and Indian wages. The only sensible response is massive up-skilling of the workforce. Only those who have capabilities no one else has or can work better than anyone else will be secure.
22. Unless China and India go totally off the rails, they will become the world's largest economies in the middle of this century. Increasingly, American, Japanese and European companies are finding China's low cost irresistible. Building a factory can cost as much as 70% less than building it in a developed country.
23. China became a member of the WTO in 2001
24. Victor Hugo – "No power on earth can stop an idea whose time has come".
25. The EU was "born" at the Treat of Rome in 1957 with only six countries. There are now 25 and more want in.
26. **Cause and effect** – 4 October 1957, the Soviet Union beat the US by launching Sputnik. The first man made satellite to orbit the earth. US airspace was no longer secure. The US was concerned that in the event of a nuclear attack, the communications system in the US could be knocked out. From this threat, the Internet was born in 1982. The Berlin Wall came down 9 November 1989 and this triggered the collapse of the Soviet Union two years later.
27. 1989 the World Wide Web was developed for commercial purposes.

28. 10 August 1995 the dot.com boom began and the stock market crashed in 2000 continuing its plunge until March 2003
29. Where did this all start? Asian countries could not focus on domestic consumption as the driver of their economic growth because their own home market was too small. So they focused on investment and production to supply others especially the huge US market which by public policy is a consuming nation. This combination of low labour costs, financial incentives, and a pro-business policy environment proved irresistible.
30. Many American companies may have head offices in the US but they are incorporated in Singapore to benefit from lower taxes.
31. China is interesting for two reason :
 - An endless supply of cheap labour. Some US businesses can open a factory in China with labour costs ranging from \$0.25 to \$1.00 an hour compared to \$13.00 an hour to produce the same product. Bad news for North American workers, good news for consumers at Wal-Mart.
 - The potential to be the worlds largest market
32. When China had its Tiananmen Square incident in June 1989, economic development came to a screeching halt. In 1992 the aging leader Deng Xiao Ping put China back on the map. His words were “like the collapse of the Berlin Wall”.
33. Taiwanese are the leading investors in China with \$100 Billion into mainland China operations. Taiwan is the leader in outsourcing to mainland China. It is not consumption that gave China its miraculous growth rate but investment by foreigners and local authorities.
34. Vietnam and parts of Thailand have lower labour costs than China.
35. Key factors for China’s success are:
 - Work ethic
 - Skill of the workers which match US worker skills
 - World class airports and sea ports
 - World class telecommunications and the broadband internet.
 - High productivity of the workers
 - Low cost labour. There is high regional unemployment to draw on an endless supply of cheap labour. The cost of labour is actually lower in Vietnam and parts of Thailand.

- The Chinese economy funds extensive overseas aid projects
 - China is the largest shareholder in the IMF and the World Bank.
36. Key challenges for China:
- Money –losing state enterprises
 - Banking problems
 - Energy shortages
 - Rural poverty
 - China has the second largest population of AIDS victims in the world.
 - Inadequate food output due in part, to reduction in farmland
 - The risk that China could export deflation
 - No land oil pipeline into China. The pipeline that was to be build in northern China with Russia’s appears now to favour a line to a port in the Russian Far East to ship to Japan and elsewhere. China is still working on the Kazakhstan option to build a 3000 Km. pipeline to transport Kazakh oil into western China.
 - Pollution – The water in five of China’s largest rivers are too dangerous to touch. Two thirds of Chinese cities have air quality below the WHO standards. Living in Chinese cities does more damage to your lungs than smoking two packages of cigarettes a day.
37. A sign on the factory floor in China – “If you don’t work hard today, tomorrow you’ll have to try hard to look for a job”.
38. Even Japan cannot resist the lure of low cost labour offshore.
39. A lesson can be learned from Japan. It mostly sells things no one else can make or make as well. They keep their brain work in Japan and ship the “black boxes” to the low wage countries for assembly. Sell things that no one else makes and survive.
40. India – The leader in the service and software sectors. India offers its customers top quality service, at low cost round the clock. Distance is no longer an impediment of doing business anywhere you can find customers.
- Insurance claims
 - Call centers
 - GE is a large shareholder in New Delhi TV that is targeting costly media work done in the USA and Europe with the hope of doing this work in India at a much lower cost. Shrek

2, Spiderman 2 and The Chronicles of Narnia benefited by India-based animators and visual effects specialists.

- Individual tax preparations done at a fraction of the cost
- Summarizing research papers for several USA and European pharmaceutical companies
- Body shopping in the 1990's became very popular. You could hire almost three Indian Engineers for the price of one American Engineer. It was discovered by many companies that they were not only cheaper but also better many of the times.
- Accent neutralization – An Indian customer service person will speak with the accent of the market they are servicing.
- Medical Tourism – Since 2000 the Appolo Hospital in India has had more than 60,000 foreign patients visit their hospital. This is world class medical service at a fraction of the cost in North America and no waiting.
- Health care is a growth industry helping train over 20,000 Doctors a year to meet the need. They will need them since India has 5-8 million HIV sufferers.
- By 2010, India may be the largest English speaking country in the world.
- India is producing 3 million college graduates a year and this will climb to 6 million over the next five years.
- The combination of low cost, quality work and instant communications means that few aspects of our lives will remain untouched by the outsourcing of services to India.
- Some of the world's largest accounting and financial services firms have shifted over 2 million jobs offshore, mostly to India.

36. Oil consumption and pollution issues for the future:

- The first private vehicle went on sale in China in 1984.
- China passed Japan as the 2nd largest consumer and importer of oil in 2004. In 2004, 2 million vehicles were sold in China. As the Chinese middle class grows, they will want what we want. Pollution fueled by economic expansion will only increase based on the current trend. Factor in the India growth, and the world has a serious pollution to deal with. We can export growth and import pollution in the same breath.

- Canada is one of the “solutions” for future oil reserves. However, it comes with a price.
 - A future crisis forecasted by energy analyst Charles T. Maxwell is in 2020, when OPEC and the Middle East peak with their production. After that, oil production should decline inexorably, never to recover.
 - Sherwood Idso of the Center for the Study of Carbon Dioxide and Global Change says there were more severe drought between 1600 and 1800 and our current “drought” will go away as they did. Is there global warming?
37. One of the future pressing issues will be water. **Canada is abundant** with this resource. How will they manage this?
38. All of this poses some very interesting questions:
- If China is leading in manufacturing
 - If India leads in services and software development
 - Asia & Europe lead the way in many areas of high technology
 - And Latin America is supply the world with food
 - What will happen to the US trade deficit and the dollar?
39. Page 166 of the book draws a very interesting parallel between Squanderville (the USA) and Thriftville which is the “rest of the world” which exports and saves more.
40. The solution for the USA is simple. Use the Export-led growth model that Asian countries use. The age old principle of manufacturer what you do best and trade for the rest. A manufacturer cannot survive producing a widget that a Chinese worker makes better at \$1.00 an hour compared to \$20.00 an hour in a developed country.
41. US unemployment figures are low. This may be easy considering that 2% of American men are in jail and are not counted as “unemployed”. When a mill shuts down in the USA, when the unemployment benefits cease, the unemployed disappear from the stats.
42. The global economy is highly distorted. Americans consume too much and save very little. The rest of the world consumes too little and saves too much.

43. In shoring vs. off shoring – Significant In shoring is happening with foreign companies moving factories and jobs into the USA, Japan and Europe. Page 197
44. Australia who is a long time trading partner with the USA once said, “Do not make us choose between China and the USA in trade and other sensitive security issues in this region”.
45. Latin America – Is doing much more trade with Asia at the cost of trade with the USA. Since 1823 America has looked at Latin America as their sphere of influence. They have invaded, occupied, reoccupied and otherwise intervened in Latin America for over a century. No wonder Latin America is looking for other more “friendly” trading partners.

This is a very interesting book to read. In one hand Canada, USA and Europe who have been holding the high ground since the industrial revolution are now facing trade threats from former third world countries. Even Japan and Taiwan who were the early developers after WW11 are facing the same threats. Chapter 12 of the book spells out deliverable solutions to counter this threat and turn it into an opportunity. Are our leaders up to the challenge? We are watching.

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