Coming Global Economic Tsunami and Prout

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A BRIEF HISTORY OF THE GLOBAL ECONOMY

Until 700 to 800 years ago, the various continents exhibited little difference in wealth and poverty. The industrial revolution in Europe, however, created vast differences in wealth between rich and poor countries due to the fact that the colonies were deprived of the use of the "new technologies." As shown in Tables 1 and 2, the economies of Third World countries like India, China, and Brazil were comparable to those of what are now the developed countries until 1750, but due to exploitation of their resources and trade restrictions their economies declined.

Table 1: Total Industrial Potential (U.K in 1900 = 100)
(Triennial Annual Averages, except for 1913)

	1750	1800	1830	1860	1880	1900	1913
DEVELOPED COUNTRIES	34.4	47.4	72.9	143.3	253.1	481.2	863.0
Europe	29.6	41.2	63.0	120.3	196.2	335.4	527.8
Belgium	0.4	0.7	1.3	3.1	5.7	9.2	16.3
France	5.0	6.2	9.5	17.9	25.1	36.8	57.3
Germany	3.7	5.2	6.5	11.1	27.4	71.2	137.7
Italy	3.1	3.7	4.2	5.7	8.1	13.6	22.5
Russia	6.4	8.3	10.3	15.8	24.5	47.5	76.6
Spain	1.6	2.1	2.7	4.0	5.8	8.5	11.0
Sweden	0.3	0.5	0.6	1.4	2.6	5.0	9.0
Switzerland	0.2	0.4	0.8	1.6	2.6	5.4	8.0
Great Britain	2.4	6.2	17.5	45.0	73.3	100.0	127.2
Outside Europe	4.9	6.2	9.9	22.9	56.9	145.9	335.2
Canada	-	-	0.1	0.6	1.4	3.2	8.7
U.S.	0.1	1.1	4.6	16.2	46.9	127.8	298.1
Japan	4.8	5.1	5.2	5.8	7.6	13.0	25.1
THIRD WORLD	92.9	99.4	111.5	82.7	67.0	59.6	69.5
China	41.7	48.8	54.9	44.1	39.9	33.5	33.3
India	31.2	29.0	32.5	19.4	8.8	9.3	13.1
Brazil	-	-	-	0.9	0.9	2.1	4.3
Mexico	-	-	-	0.9	0.8	1.7	2.7
WORLD	127.3	146.9	184.4	225.9	320.1	540.8	932.5

Source: Bairoch, P., "International Industrialization levels from 1750 to 1980," *Journal of European Economic History* 11 (fall 1982). p. 292.

Table 2: Shares of "New Technology" Industries in the Total Manufacturing Output by Regions *(in percent)*

	Developed Countries (excluding Japan)			Third World (excluding Japan)	World (including Japan)
	UK	Other Countries	Total		
1750	0-1	0	(a)	0	(a)
1800	6-10	1-3	2-4	(a)	1-2
1830	32-40	6-10	12-17	0-1	4-6
1860	60-70	18-24	29-36	0-1	17-23
1880	62-74	30-38	40-48	1-3	30-28
1900	68-78	49-57	52-61	4-9	49-56
1913	72-80	55-65	60-65	10-19	54-62

(a) Less than 0.5 percent.
Source: Bairoch, P., "International Industrialization levels from 1750 to 1980," *Journal of European Economic History* 11 (fall 1982). p. 288.

During the 18th century, for example, the British imposed trade restrictions on Indian textile exports, which were better than British machine-manufactured textiles, to safeguard its own textile industry. India experienced zero per capita growth from 1600 to 1870, the period of growing British influence. Per capita economic growth from 1870 to independence in 1947 was a meager 0.2 percent per year, compared with 1 percent in the UK.

The U.K. and other European countries achieved tremendous economic growth in the 1800s at the expense of the economic growth of their colonies until the two world wars ended this scheme. The U.S. then took over economic leadership when European nations had to take American war loans and due to the boost these wars gave American industry. The U.S. supplied billions of dollars' worth of munitions and foodstuffs to the Allies during two World Wars, and the Allies had to borrow money on the New York and Chicago money markets to pay for them. By the late 1940s, the U.S. gross domestic product (GDP) was almost half of the world's GDP, and American companies were working at full capacity. This contrasts dramatically with post-war Europe, most of whose factories had been completely destroyed. In addition, technological advances in both ocean and air

transport during the war made the transportation of goods cheap, integrating the American economy into the world economy.

The war also caused the demise of the world's two main colonial powers, Britain and France. Britain's national debt was about 250 percent of its GDP in 1946. This forced them to grant independence to most of their colonies, which were too expensive to keep within the colonial fold.

World War II also saw the emergence of the U.S.S.R., which initially demonstrated tremendous economic growth. Soviet rulers claimed that they would surpass the economic might of the West, but after a few decades the Soviet economic miracle fizzled out once the drawbacks of communism, including inefficiency and relatively poor productivity, crept into the Soviet economy. This finally led to the collapse of the Soviet empire in 1991.

Due to the Korean War, the Japanese and South Korean economies were rebuilt on the ruins of World War II. After the oil price increases in the late 1970s and subsequent inflation, U.S. industries started shifting their production to East Asia, creating the four "Asian Tigers," namely, South Korea, Hong Kong, Taiwan, and Singapore. Since these four countries were too small to produce all the manufactured goods needed for the U.S. consumer market, Chinese businessmen in Hong Kong, Taiwan, and Singapore invested in countries like Indonesia, Thailand, and Malaysia, where the Chinese origin people had a monopoly on industry. This finally led to the rise of China. The losers were American workers, who were laid off on a large scale. The advent of information technology in the mid-1990s created jobs in the U.S., but to satisfy the profit demands of Wall Street investors, CEO's had to send information technology jobs to countries like India, Ireland, and Philippines.

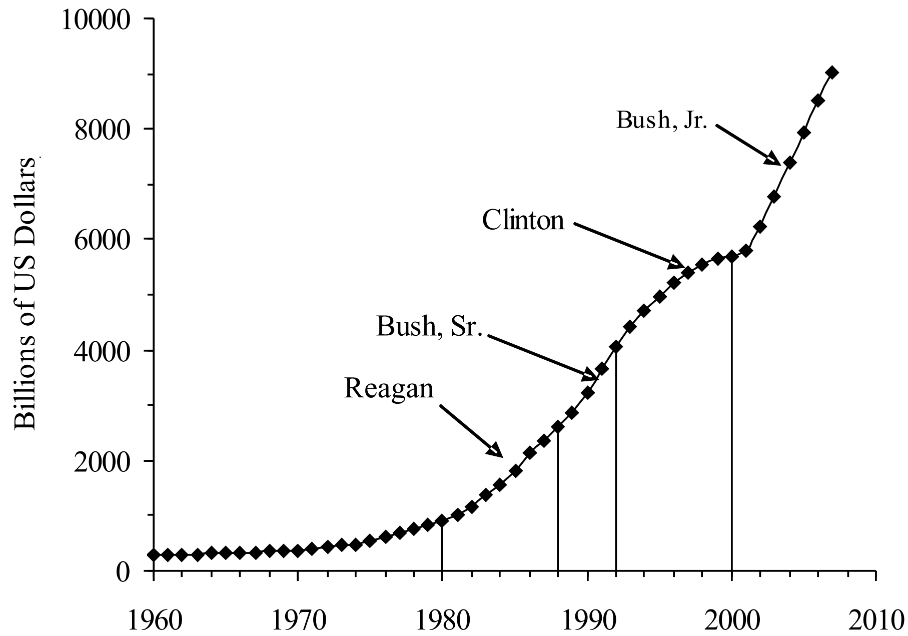
COLLAPSE OF THE AMERICAN ECONOMY AND THE GLOBAL ECONOMIC TSUNAMI

The debt crisis started by the Reagan administration is becoming unsustainable. Although the Clinton administration was able to balance the budget, and even had budget surpluses its last two years, it was unable to rein in the balance of payment (BPO) deficit, which has increased from $140 billion in 1997 to $738 billion in 2007. Figure 1 shows the U.S. debt from 1960 to 2007. The chart clearly shows that the debt rose at a faster rate during republican administrations. The curve is concave during the Clinton administration, when the increase in the debt was the slowest. The Bush administration, to compound the difficulty, has increased U.S. fiscal debt from $5.6 trillion to $9 trillion because of tax breaks and increasing defense expenditures. Taking advantage of the fact that the dollar is the global currency, the Fed prints money whenever it feels necessary in order to fund the two deficits we now have—the trade deficit and the budget deficit. However, these large, accumulating sums are not sustainable.

Figure 2 shows the U.S. BOP as a percent of GDP from 1930 to 2007, and Figure 3 shows the BOP in billions of dollars from 1990 to 2007. The BOP has deteriorated very fast since 2000, with the beginning of the Bush administration, and is now in uncharted territory. In terms of percent of GDP, this is the first time the BOP has been allowed to drop to this level in American history. During the mid-1980s when it started going into what was then also uncharted territory, the U.S. had to sign the 1985 Plaza Accord (shown as the vertical line in Figure 2) and cooperated in a controlled depreciation of the dollar in

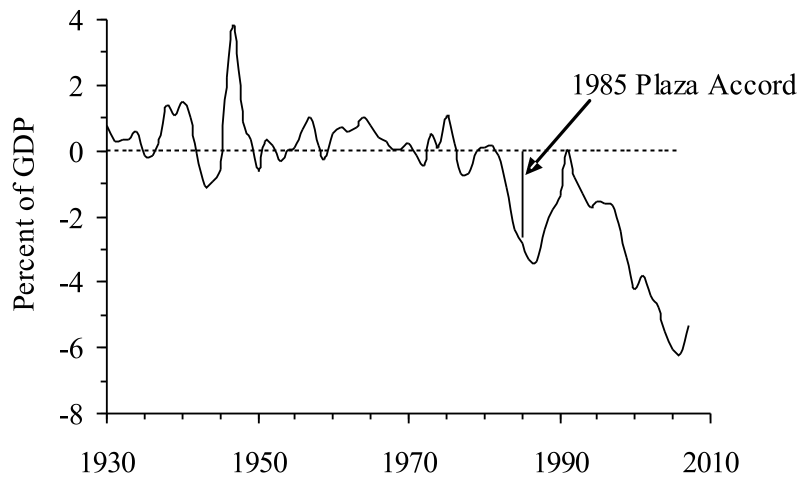
order to increase its exports. At that time, all the main players in the global economy—Japan, West Germany, France, and the U.K.—were dependent on the U.S. for their security and so helped it in this endeavor. China and Russia are the world's largest and third largest FOREX holders now, however, and most of their FOREX is in dollars; they may not do what the U.S. wants. They have seen the fate of the "bubble economy" of the late 1980s and 1990s in Japan due to the Plaza Accord, and will likely hesitate to sign a similar accord. They may even prefer to see the U.S. economy collapse rather than protect it.

Figure 1 **U.S. Debt**

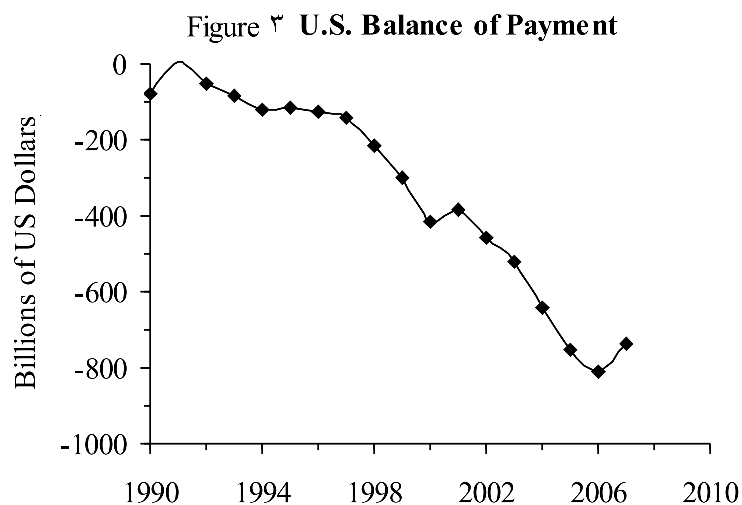


Data Source: www.treasurydirect.com

Figure 2 **U.S. Balance of Payment**



Data Source: U.S. Dept. of Commerce (Bureau of Economic Analysis)



Data Source: U.S. Dept. of Commerce (Bureau of Economic Analysis)

Table 3a: World Export Market Shares of Goods and Services of Selected Countries (1970-1999)

(percent for total for world)

	1970-79	1980-89	1990-94	1995	1996	1997	1998	1999
U.S.	12.4	12.2	13.1	12.6	13.0	13.7	13.8	14.0
Japan	6.3	7.9	8.1	7.9	7.2	7.1	6.5	6.7
Germany	10.3	9.7	10.3	9.8	9.4	8.7	9.3	9.0
U.K.	6.0	5.6	5.3	5.0	5.2	5.4	5.6	5.4
France	7.0	6.6	6.4	5.9	5.5	5.2	5.7	5.5
Italy	4.4	4.4	4.9	4.8	5.0	4.2	4.8	4.4
Canada	4.0	3.7	3.4	3.4	3.6	3.6	3.6	4.0
China	0.7	1.1	1.7	2.4	2.4	3.1	3.1	3.1
Russia	2.5	2.7	1.5	1.5	1.5	1.5	1.3	1.3
India	NA	NA	NA	NA	0.6	0.7	0.7	0.7
Brazil	0.9	1.0	0.8	0.8	0.8	NA	NA	NA
Mexico	0.6	1.0	1.0	1.1	1.2	NA	NA	NA

Source: *World Economic Outlook,* IMF, 1997-2001; NA – Data Not Available.

Table 3b: World Export Market Shares of Goods and Services of Selected Countries (2000-2008)

(percent for total for world)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
U.S.	14.2	13.6	12.4	11.1	10.3	10.1	9.8	9.6	9.3
Japan	7.0	6.0	5.8	5.7	5.7	5.3	5.0	4.7	4.5
Germany	8.4	8.7	9.1	9.5	9.5	8.9	8.9	9.2	8.7
U.K.	5.1	5.1	5.1	4.9	4.8	5.3	4.6	4.3	3.9
France	5.0	5.0	5.1	5.0	4.8	4.4	4.1	4.0	3.8
Italy	3.9	4.0	4.0	4.0	3.9	3.7	3.5	3.6	3.4
Canada	4.2	4.1	3.8	3.6	3.4	3.4	3.1	2.9	2.7
China	3.7	4.0	4.6	5.3	5.9	6.6	7.2	7.8	8.4
Russia	1.5	1.5	1.5	1.7	1.8	2.1	2.3	2.3	2.7
India	0.8	0.9	0.9	0.9	1.1	1.2	1.3	1.4	1.4
Brazil	NA	NA	NA	0.9	1.0	1.1	1.1	1.1	1.2
Mexico	NA	NA	NA	1.3	1.2	1.2	1.8	1.7	1.6

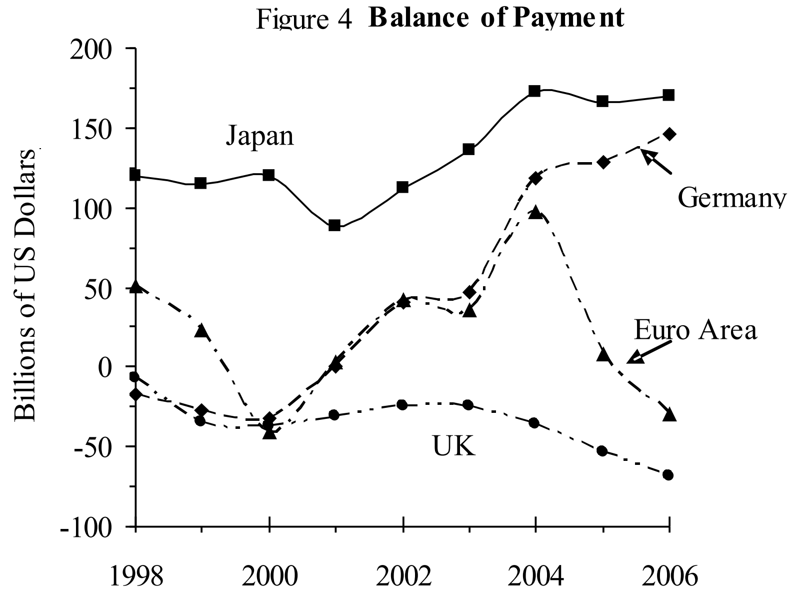
Source: *World Economic Outlook,* IMF, 2002-2009; NA – Data Not Available.

Tables 3a and 3b show the world export market shares of goods and services of selected countries. Up to the 1990s, the U.S. was increasing its world export market shares of goods and services nearly every year, but thereafter during the eight years of the Bush administration it was losing its share every year. China is the main beneficiary as it has increased its world export market shares of goods and services from 3.1 percent in 1997 to 8.4 percent in 2008. Although India is being touted as an emerging economic super-power like China, it has long way to go as it has only 1.4 percent of the world export market shares of goods and services. Due to its massive population and underdeveloped economy in several states, India will eke out significant amount of growth rate each year and its economy may even become third or fourth (in terms of GDP) in the world in next three-four decades, but India needs to strengthen its manufacturing base if it wants to become a global economic power, otherwise it is fast becoming a consumer country like the US and will be always at the mercy of foreign investors.

Among the BRIC (Brazil, Russia, India and China) nations, China is clearly the leader right now. In last twenty years, Japan has lost almost half of its share of the world export market shares of goods and services, and this explains the reason why Japan's trade surplus is shrinking every year.

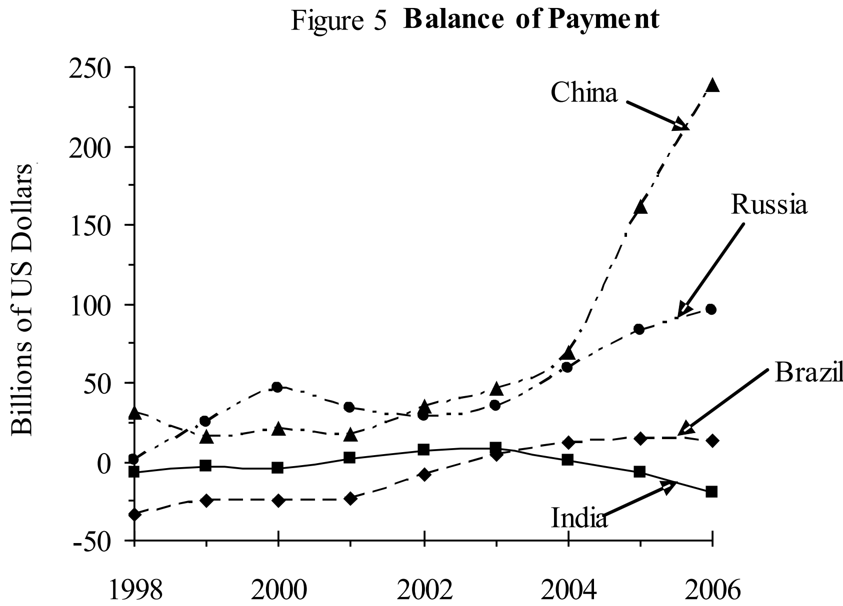
Figures 4 and 5 show the BOP's of selected countries. All countries except U.K. and India have positive BOPs in the past several years. The main reason behind the negative BOP of India is the import of gasoline. India needs to follow in the footsteps of Brazil and find a substitute for petrol as soon as possible, otherwise it may face an economic crisis because it is the only country in BRIC that has a negative BOP. India has the second highest arable land after the U.S. and hence it can produce a sufficient amount of ethanol as well as food grains to feed its population by employing modern agriculture equipments and technique. In Brazil, no small vehicles run on pure gasoline; instead they use ethanol-mixed gasoline, which is available all over the country.

Figure 4 **Balance of Payment**



Data Source: *World Economic Outlook* , IMF, May 1998, p. 182; April 2007, pp. 248-251.

Figure 5 **Balance of Payment**



Data Source: *World Economic Outlook* , IMF, May 1998, p. 182; April 2007, pp. 248-251.

Table 4 shows the major holders of U.S. treasury securities. By the end of 2008, China had surpassed Japan as the largest holder of the U.S. treasury securities. U.K. and Oil Exporting countries are the third and fourth largest holders of the U.S. treasury securities. Caribbean Banking Centers (Bahamas, Bermuda, Cayman Islands, Netherlands Antilles and Panama) and Brazil are the fifth and sixth largest holders of the U.S. treasury securities and are not shown in Table 2.8. Russia and Hong Kong are seventh and eighth largest holders of the U.S. treasury securities. Holding of significant amount of treasury securities by China, Russia and Oil Exporting countries does not bode well for the country

because if they start to dump these treasuries, the interest rates will increase drastically which will drag the entire US economy down. Apart from the U.S. treasury bonds, the foreigners hold significant amount of U.S. corporate bonds also. It is worth noting that Third World countries like China, Russia, Oil exporting countries, Brazil and India, are funding the luxuries of the US.

Table 4: Major Holders of U.S. Treasury Securities
(in billions of U.S. dollars)

(At the end of year, unless specified)	Japan	China	U.K.	Oil Exporting Countries[1]	Russia	Hong Kong	Grand Total
2000	317.7	60.3	50.2	47.7	NA	38.6	1015.2
2001	317.9	78.6	45.0	46.8	NA	47.7	1040.1
2002	378.1	118.4	80.8	49.6	NA	47.5	1235.6
2003	550.8	159.0	82.2	42.6	NA	50.0	1523.1
2004	289.9	222.9	95.8	62.1	NA	45.1	1849.3
2005	670.0	310.0	146.0	78.2	NA	40.3	2033.9
2006	622.9	396.9	92.3	110.2	NA	54.0	2103.1
2007	581.2	477.6	158.1	137.9	32.7	51.2	2353.2
2008	626.0	727.4	130.9	186.2	116.4	77.2	3076.9
June 2009	711.6	776.4	214.0	191.0	119.9	99.8	3382.4

[1] Oil exporters include Ecuador, Venezuela, Indonesia, Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Algeria, Gabon, Libya and Nigeria.

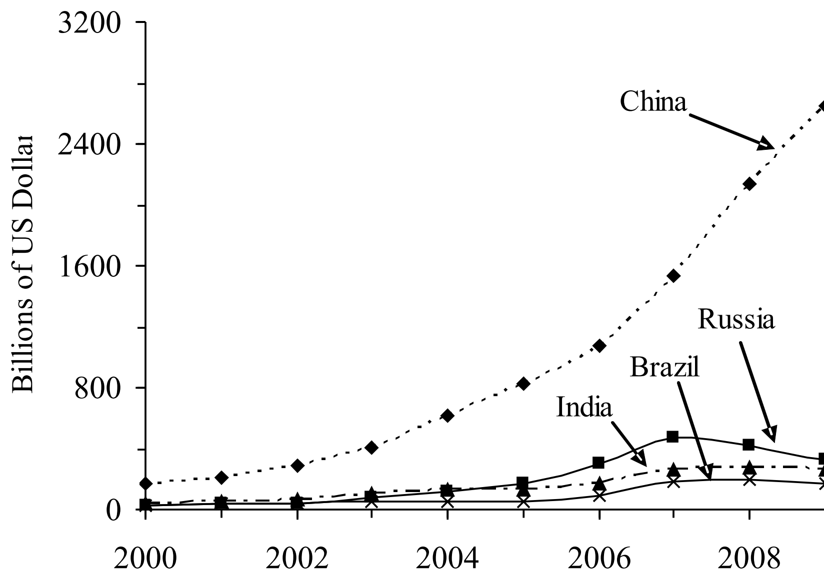
NA – Data Not Available

India - $38.5 billion (14th largest holder), $32.5 billion (Jan. 2009), $20.2 billion (Aug. 2008).

Source: *U.S. Department of Treasury*.

Due to the economic downturn, the US trade deficit is expected to reduce. In 2007, the U.S. BOP reduced to $738 billion from $811 billion in 2006. According to April 2008 IMF estimates, the U.S. BOP deficit would have continued to be above $600 billion for the next five years - $614 billion in 2008, $605 billion in 2009 and $676 billion in 2013. But due to the sudden 2008 economic downturn and subsequent loss of purchasing power of the American consumers, the IMF revised its estimates. Now according to IMF estimates, the U.S. BOP will continue to be above $450 billion for next five years. But on the other hand, as shown in Figure 6 its two main adversaries will continue to amass FOREX (Foreign Exchange Reserves) at alarming rates - China ($1.5 trillion, $2.1 trillion, $2.6 trillion and $3.1 trillion at the end of 2007, 2008, 2009 and 2010, respectively) and Russia ($467 billion, $421 billion, $333 billion and $320 billion at the end of 2007, 2008, 2009 and 2010, respectively). It is worth noting that China and Russia had only $168.9 billion and $24.8 billion FOREX, respectively, in 2000.[1] In Figure 6, FOREX for 2009 and 2010 are estimates.

Figure 6 **FOREX Reserve**



Data Source: *World Economic Outlook*, IMF, April 2009

Let us do some simple calculations. Even though the American consumers may start to save more and spend less, the BOP deficit will not go down because the consumer items, sold in stores like Walmart, Kmart, Home Depot and Lowe's, will not be manufactured inside the country as the stores will make more profit by getting them manufactured overseas than within the country. As per April 2009 IMF estimate, the BOP deficit will be around $450 billion per year for next several years. It is worth noting that this IMF estimate was published when the 2008 economic downturn was at its peak. Therefore in next five years, the additional accumulated BOP deficits will be $2.25 trillions. In next ten years, this amount will be $4.5 trillions. Apart from this, the country will have significant amount of budget deficit every year. In 2009, the U.S. budget was a record $1.4 trillion. The country needs to attract significant amount of foreign investment to fund these two deficits in order to keep the interest rate low. This is not sustainable in the long run.

Despite having a negative savings rate, the US economy is booming because it is getting savings from other countries. According to economist Allan H. Meltzer at Carnegie Mellon University, "We [US] get cheap goods in exchange for pieces of paper, which we can print at a great rate." However, the mountain of U.S. bonds foreigners are accumulating means the country is going deeper into debt to fund its import binge. According to William R. Cline, a scholar at the Institute for International Economics, "Sooner or later, the rest of the world will decide that the U.S. is no longer a safe bet for lending more money."[2] According to Brad Setser, an economist with Roubini Global Economics, LLC, in New York, in order to pay for its imports the U.S. needs to attract foreign capital at the rate of about $20 billion a week [i.e. to finance $1 trillion dollar twin deficit a year, consisting of $700 billion trade deficit and $300 billion budget deficit]. This is equal to selling three companies the size of the maritime firm supposed to be purchased

by Dubai Ports World.[3] "We are basically selling off the furniture to pay for Thanksgiving dinner," says Peter Morici, a professor at the University of Maryland's business school in College Park. According to him, foreigners could own within the next decade more than a fifth of the nation's total $35 trillion or so in assets of every kind – corporations, businesses and real estate.[4] Therefore it is wrong to claim that capitalism is successful in the US. If a person needs $3 billion every day to run his family, then he can not claim himself to be a successful businessman. Regardless of what economic experts are saying, capitalism is already dead.

On the other hand, China's FOREX is increasing at the rate of $500 billion each year. Despite the severe 2008 global economic downturn, China surpassed the pre-2008 global economic downturn IMF estimate of its 2008 year-end FOREX. According to April 2008 IMF estimate, China should have had $1.91 trillion FOREX at the end of 2008 whereas it ended up with $2.13 trillion whereas Russia ended up with a lower amount as Russia had to spend its FOREX to support its currency and banks because of the 2008 economic downturn (the corresponding numbers for Russia FOREX were $583.0 billion and $421.3 billion, respectively). Russia's FOREX mainly depends on crude oil price which is its mail export. Like Russia, other two BRIC nations, India and Brazil, also ended up with lower amounts at the end of 2008 as compared to the pre-2008 economic downturn IMF estimates. According to the April 2008 IMF estimates, India and Brazil should have had $287 billion and $220 billion, respectively, of FOREXes at the end of 2008 whereas they ended up with only $272 billion and $193 billion, respectively. Among the BRIC nations only India's FOREX is on a shaky ground as it is mainly based on foreign investments and remittances by NRIs (non-resident Indians), and not on its BOP which is in negative territory for last several years.

Due to nearly double-digit growth rate every year and low debts, China is the prime destination for the foreign investors. According to IMF estimates, China will have $3.1 trillion FOREX at the end of 2010. Therefore after five years, it will have $5.6 trillion FOREX. With this much amount of FOREX, China will have a virtual control over the U.S. currency. As discussed previously, China has seen the fate of the "bubble economy" of the late 1980s and 1990s in Japan due to the Plaza Accord, and will likely hesitate to sign a similar accord. China is not just going to accumulate this much of paper of a country, i.e. U.S. dollars.

According to Lou Crandall, chief economist at Wrightson ICAP, which analyzes Treasury financing trends, "While the current market for [US] Treasuries is booming, it's unclear whether demand for debt can be sustained. There's a time bomb somewhere, but we don't know exactly where on the calendar it's planted."[5] In a similar situation, the US and German banks did not help Gorbachev in the late 1980s that led to the collapse of the U.S.S.R.

After record-breaking prices in the early 1980s, oil prices plummeted in the second half of the decade. Oil was the main export and source of hard currency for the U.S.S.R. Insufficient investment and lack of modern technology needed to harness hard-to-reach oil fields prevented her from expanding production, however, and in fact Soviet oil production began to decline. The government was also borrowing heavily to modernize its economy. These two factors led to a rise in Soviet external debt. In 1985, oil earnings and net debt were $22 billion and $18 billion, respectively; by 1989, these numbers had become $13 billion and $44 billion, respectively. By 1991, when external debt was $57 billion,

creditors (many of whom were major German banks) stopped making loans and started demanding repayments, causing the Soviet economy to collapse.[6]

Therefore at some point of time, the U.S. dollar has to collapse. The collapse of US economy will lead to a global economic tsunami that will dwarf the 1930s Great Depression as the global economy is right now revolving around the US economy and also it is much more integrated than in 1930s.

Countries like India are also becoming like the U.S., i.e. consumer countries and their fates are also going to be like that of the U.S. Right now, India's trade deficit with China is increasing every year and it is exporting minerals to China and importing finished products. One can use the US dollar anywhere in the world and hence the US is being able to fund its deficits by printing its currency. But countries like India can not do the same. Therefore in the long run this situation is going to lead the global economy to a chaos as within a decade or two major consumer countries will have to declare bankruptcy to China. Hence the current global economy model (of cheap goods [or services] being manufactured in China or Third World countries and then sold in other countries) is bound to fail and the 2008 economic downturn was a symptom of its failure.

When India had BOP of worth two weeks of import only in 1991 and had to go to IMF for getting a loan, it had to open its economy and to sell several of its government-owned profitable firms at throw-away prices to the US firms under the IMF dictates as the IMF is run by the U.S. treasury department. India needs to strengthen its manufacturing sector as well as to find the substitute of oil as it should avoid a repeat of the 1991 BOP crisis because in future instead of the US, it will be China who will be enforcing its dictates.

It is worth mentioning that India fought a war with China in 1962 and has still border issues with China. China accuses India of possessing 90,000 sq km of Chinese territory mostly in Arunachal Pradesh, a northeast state of India as well as a large section in Jammu & Kashmir. Since 2009, China is giving visa on a separate piece of paper rather than on India's passport of a Jammu & Kashmir citizen of India, claiming it to be a disputed territory. If a senior central minister, like prime minister, visits Arunachal Pradesh, then China lodges protest with the Indian government. In May 2007, India had to cancel the visit of a 107-member-strong delegation of its Indian Administrative Service (IAS) officers to China when China gave visas to 106 of them and refused a visa to an IAS officer of Arunachal Pradesh state, which borders Chinese territory, claiming that as a "resident of China" no visa was needed. Some years ago, China denied a visa on the same grounds to the chief minister of Arunachal Pradesh. In 2009, China tried to block a $2.9 billion Asian Development Bank loan to India on the grounds that part of the loan was going to be used for water projects in Arunachal Pradesh. Hence it is in the best interest of India to balance its foreign trade by strengthening its manufacturing base and find a substitute for oil as soon as possible.

As discussed in my book, *The Modernization Islam and the Creation of A Multipolar World Order*, the 1930s Great Depression resulted in the rise of Hitler, who tried to establish a thousand years of Third Reich, but instead paved the way for thriving democracies in most of Europe and decolonization in Asia and Europe. Similarly, the coming Great Depression will result in the collapse of capitalism, a secular and democratic Middle East, and enduring peace for the entire humanity.

Two seemingly unrelated facts also suggest inherent deficiencies in capitalism. First, in the latest high school textbooks in Shanghai, China, Mao Zedong, the former communist dictator responsible for the deaths of tens of millions of Chinese, is mentioned only once—in a chapter on etiquette. The new standard world history text has eliminated wars, dynasties, and communist revolutions in favor of colorful tutorials on economics, technology, social customs, and globalization. J.P. Morgan, Bill Gates, the New York Stock Exchange, the space shuttle, and Japan's bullet train are all highlighted. The book even includes a lesson on how neckties became fashionable. The French and Bolshevik Revolutions, once seen as turning points in world history, now get far less attention. Mao, the Long March, the colonial oppression of China, and the Rape of Nanjing are taught only in a compressed history curriculum in junior high.[7]

Second, the percentage of workers in the American agricultural sector was reduced from 40 percent of the total workforce in 1900 to only three percent in 1999. [8] The percentage of manufacturing workers was reduced from 35 percent of the workforce in 1953 to 14 percent in 1999.[9] With automation and the increase in productivity that it brings, the number of workers required in the manufacturing sector as well as the service sector decreases.

The first fact tells us that China has accepted the death of communism and a future in capitalism. The second tells us that because over time a nation's manufacturing sector requires fewer hands, capitalism will in the long run fail in China because of its large population. China has too many people to employ to be able to overcome the unemployment resulting from the capital-, as opposed to labor-, intensive techniques demanded by capitalism's profit motive and ethic of competition.

Although the economies of both China and India are booming now, they will face large-scale unemployment once rural workers try to migrate to urban areas in order to escape declining rural economies. The majority of the Chinese and Indian populations are rural and large—in the hundreds of millions—and work will not be available for a large portion of them.

In advanced countries like the U.S. and Japan, people talk about getting the latest gadgets like flat panel televisions, iPods, iPhones, etc. It is true that the quality-of-living standard of developed countries has increased tremendously in the last couple of decades, but poor people around the globe still struggle just to survive. The World Bank uses an income of one dollar per person per day, measured at purchasing power parity, to determine the numbers of extreme poor, and income between one and two dollars per day to indicate moderate poverty. According to a 2004 World Bank study done by economists Shaohua Chen and Martin Ravallion, roughly 1.1 billion people were living in extreme poverty in 2001, down from 1.5 billion in 1981. The overwhelming share of the world's extreme poor, 93 percent in 2001, live in three regions: East Asia, South Asia, and Sub-Saharan Africa. Since 1981, the numbers of extreme poor have risen in Sub-Saharan Africa, but have fallen in East Asia and South Asia. Almost half of Africa's population is deemed to live in extreme poverty, and that proportion had risen slightly over the period. The proportion of extreme poor in East Asia has plummeted, from 58 percent in 1981 to 15 percent in 2001; in South Asia progress has also been marked, although slightly less dramatic, from 52 percent to 31 percent. Latin America's extreme poverty rate is around 10 percent, and relatively stuck; Eastern Europe's rose from a negligible level in 1981 to around 4 percent in 2001, the result of upheavals from the communist collapse and

economic transition to a market economy. East Asia, South Asia, and Sub-Saharan Africa have about 87 percent of the world's 1.6 billion moderately poor.[10]

According to philosopher Prabhat Rainjan Sarkar, Nature has been kind enough to provide abundant natural resources to all regions of the world, but she has not given any guidelines on how to distribute these resources among the members of society. This duty has been left to the discretion and intelligence of human beings. In light of how many people suffered under communism and still suffer under capitalism, it would appear that these two systems represent less than the best in discretion and intelligence, and so he developed the Progressive Utilization Theory (Prout).

Prout's focus is on economic decentralization and on the optimum utilization of local resources to generate full employment for local people, something that can be achieved without investing a significant amount of money. It aims at increasing the individual's purchasing power rather than increasing the gross national product (GNP).

According to the Progressive Utilization Theory, a country should be divided into socio-economics zones, each of which will have enough natural resources for its population to become economically self-sufficient. In order to realize the goal of self-sufficiency, local people will hold economic power, enabling local raw materials to be used to promote their economic prosperity. The raw materials of one socio-economic unit will not be exported to another unit, as they often are in the free market system, but rather, industrial centers will be built up wherever raw materials are available. Following this policy will create industries based on locally available resources and provide full employment for local inhabitants. Goods essential to local life like basic food items and clothing will not be targeted for export, either to other zones or to other countries, but rather primarily satisfy local demand. Trade, rather than being the centerpiece of economic policy as it is under neoliberal globalization ideology, will focus more on demi-essential items (non-basic food items, antiseptic soap, etc., that are not luxury items) and non-essential, refined wares (luxury items). Guaranteed employment and productivity improvements will increase the purchasing capacity of all residents, ensuring rising standards of living, the goal of any economic philosophy that plans systematically, not haphazardly, for the welfare of all people, not just a few.

[1] *World Economic Outlook*, IMF, April 2008, p. 258, and p. 266.
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[3] Blustein, Paul, “Mideast Investment up in U.S.,” *The Washington Post*, March 7, 2006.
[4] Fracis, David R., “The U.S. is for Sale – and Foreign Investors are Buying,” *The Christian Science Monitor*, June 9, 2008.
[5] Montgomery, Lori, “U.S. Debt Expected To Soar This Year,” *Washington Post*, January 3, 2009.
[6] Sachs, Jeffrey D., *The End Of Poverty*, The Penguin Press, New York, 2005, p. 132.
[7] Kahn, Joseph, “Where’s Mao? Chinese Revise History Books,” *The New York Times*, September 1, 2006.
[8] Cox, Michael W. and Alm, Richard, *Myths of Rich and Poor: Why We’re Better Off Than We Think*, Basic Books, New York, p. 128.
[9] Ibid., p. 129.
[10] Sachs, Jeffrey D., op. cit., pp. 20-21.