

# “Global Themes

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## Mapping Demography: Parsing Global Hot Spots

An Interview with Jack Goldstone, eminent demographer, George Mason University

### Demography and growth

*Jennifer Warren:* Commentators have suggested that Japan's aging society will reduce growth prospects. In light of other developed countries having falling replacement ratios, i.e. reduced population growth, isn't there another way to look at this?

**Jack Goldstone:** There is no getting away from the fact that when population growth ends, many factors that are good for economic growth also end. You don't have family formation. You don't have people saving as much. Instead, they begin to draw down their savings. There are fewer young people who are the innovators and leading edge consumers coming into the market. You can compensate for that. There are plenty of people in the world who would love a chance to live in developed countries. But most of the rich countries are hostile to immigration. In Japan, for example, they consider immigration a weakening of their national fiber, and have ruled it out. The other alternatives for growth are to borrow, which Japan has done hand over fist. They're more indebted than any other country in the world. Their debt is 200% of GDP, but it's owned internally and not the panic situation as it is in Europe. They

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are running out of options. Japan hasn't had growth or the prospects for growth for a long time. The result has been kind of political infighting and stalemate. A generation of young people are growing up not expecting growth. There is no easy way out.

If you look at the population of the world as a whole, the age distribution looks fine. The world as a whole has the same age distribution as the United States had in the 1970s, just before we had two decades of growth. But the world is divided into countries that are very old and very young. If markets are not integrated, both are going to have severe problems.

*JW:* There is definitely a need for novel ways forward and belt tightening.

**JG:** Again, a country gets rich according to the productivity of its people. If there are fewer people, being more productive results in growth. However there are no signs of a big surge in productivity. We had a surge in the '80s and '90s but in recent years, productivity has slipped

again. Absent a giant new surge that makes people more productive, we're not going to get there. I don't see slowing population as a minor problem; it changes the game.

*JW:* Even with favorable demographics in many developing countries, is it really a proper strategy for the many global firms seeking new markets to simply target growth areas, or should they be taking a more nuanced view of growth markets?

**JG:** Firms have to be careful. The developing world and emerging economies vary greatly in the rule of law, reliability and stability of government, and human capital of their workforce. You can't just pour money into poor countries and hope. There will be convergence, and

On September 28th, DCFR President Jennifer Warren interviewed Jack Goldstone, director of Center for Global Policy, George Mason University. This brief's content is based on his comments and complements the 2011-12 Series "D" programs, a DCFR initiative.

they'll grow. Some will grow; some will have disasters. For example, I would not invest in Northern Nigeria now because it's very volatile. On the other hand, Turkey is making great strides. Mexico still has great potential despite its problems with criminal elements. Much of the economy is undergoing a rapid industrialization. With many investment alternatives, you have to be selective, and growth is scattered around the globe.

*JW:* There has been popular interest in the BRICs (Brazil, Russia, India, China) for many years. Is the idea of the TIMBIs (Turkey, India, Mexico, Brazil and Indonesia) your own new concept? What can you say about them as growth markets?

*JG:* What they all have in common, unlike China, are fast-growing labor forces. Unlike China, the education level of their workforce is increasing as well. China has already made a lot of progress in that regard. The TIMBI countries are still catching up. In particular, the quality of higher education has a long way to go in Brazil, Turkey, and Mexico to catch up to European and American standards. But it is happening. The ambitions are clearly there. The University of Sao Paulo wants to be a world-class university. A number of Turkish universities are vigorously pursuing exchange with Europe and the U.S. to upgrade. So the quality of the workforce is going to be increasing fast. And unlike China, these countries are still modest in size relative to their export market. China's economy has become so large that it can't grow simply by substituting its exports for consumption in rich countries the way it used to.

Mexico, Brazil, and Indonesia—their economies still have room to grow. They also have better resource positions. Brazil not only manufactures, it is a rich commodity economy. In Mexico, while oil is diminishing, it still is producing.

Indonesia is the same. Turkey has the advantage of a wonderful geographic location for trade. I'm not basing these assessments solely on the fact that they have many young people. They're also well-placed for their young people to work and increase their output.

#### Safety Nets

*JW:* How drastically must the U.S. change entitlements, given growth prospects coupled with an aging population? Can you compare the U.S. to Germany and Italy since they have slightly worse numbers than us demographically?

*JG:* Germany and Italy have lower fertility rates and so will be aging faster. But America has much higher rates of health care cost increases. In comparing two countries, one of which pays twice as much for health care and only has half the aging problem, it is going to be as troubled as a country that pays half as much for health care but has more elderly. There's no getting around this. Either we drastically transform our health system to get lower prices or we have no real advantage with regard to aging compared to the European countries.

Even though America has a more favorable demographic profile than the worst European countries, including Japan and South Korea, it still doesn't have as favorable a demographic profile as it did from 1950-2000. From 1950-2000, the U.S. labor force grew by about 1% a year, as did Europe's. Europe's growth is heading toward zero. America's growth, though it will continue, will fall to about 0.75%. If our labor force growth falls by 75%, we have to make up for that with increases in productivity, but

we're not doing that. We're telling the best and brightest students among our immigrants and among want-to-be immigrants: 'You can't come here.' We're cutting back on basic research funding. Obama is trying to improve that a bit. However under the new climate of discretionary spending cuts, it is hard to see how that will grow. We're not focusing on innovation policy to the levels necessary to play catch up. America's not going to be aging as severely as Italy and Germany, but we shouldn't simply assume that we're out of the woods. Our health costs will kill us if we don't get our finances under control.

*JW:* Developing countries such as China and Indonesia have need for social safety nets. What should be learned from the experiences of the Western world — the U.K., France,



Germany, U.S., Italy, and Spain — with entitlement issues. Is there any country managing this issue properly with social safety nets?

*JG:* Yes, they are in developing countries. The number one lesson is— don't make promises you can't keep. China is doing everything they can to avoid stacking up liabilities for its aging population. Fortunately, those that are going to be elderly in China don't expect the government to take care of them the way we do here. They do want some pensions, but they still will depend more on their children's earnings, and they will be

able to do that for another generation. China's labor force growth is slowing but their severe aging won't set in until after 2030, whereas ours is already starting. So they have about a twenty-year grace period to develop policies.

The other lesson they have also learned from us — if you make promises of future liabilities — then account for them properly. China is considering their demographic profile and trying to determine how to create more balanced growth.

### China

*JW:* Given Africa's plight (and understandably different countries having different scenarios of course), what might be a better approach for African states that are affected by China's resource quests?

**JG:** African countries are learning to play India against China because India now is starting to follow China in investing overseas, particularly in land but also in manufacturing facilities. African countries are learning from the Chinese approach to Western investors: ask for joint projects instead of China-controlled projects. Seek technology transfer, and require long-term commitments. China is building infrastructure in Africa. That's good for China because China needs the infrastructure to export goods and commodities from those countries back to China. Fortunately, infrastructure cannot be suddenly withdrawn like financial capital. That puts the African countries dealing with China in a slightly better position than Latin American and Asian countries that received considerable financial capital that was then divested at the sign of downturn.

*JW:* It's easier to turn the spigot off than to stop a road or whatever you're building.

**JG:** The Chinese economic model has been very attractive for places like

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Rwanda, Burundi, and Ethiopia, with strong authoritarian governments, popular support and an emphasis on economic issues. That has been working for a while. However even in China, the demands for accountability are starting to get stronger. For the next ten or fifteen years, China's influence in the world will continue to grow. But China's own internal conflicts about the degrees of democracy, accountability, and transparency will be increasing.

*JW:* You write in your blog, there is an over-emphasis on China, a sort of China-phobia. It's interesting for writers to write about China, but is this China-phobia really warranted?

**JG:** A lot depends on whether Europe and the U.S. collapse, which was not in the picture two years ago. If the U.S. really bogs down to 1% growth for five or ten years while China keeps going even at 6 or 7%, then they could catch up very quickly.

The real key to modern wealth creation is innovation and having a knowledge economy. China is a long way from doing that successfully; and I don't believe that in an authoritarian, information-controlled context, they can really be successful at it. I see their growth petering out, in part because they will pay more for their raw materials. Labor is getting more expensive, so they are losing their niche as the low-cost manufacturer. I don't see them moving up the value chain anytime soon. They manufacture cars better than in the past, but India

actually produces cars cheaper than China.

*JW:* Did you see India's Nano car decked out in jewels?

**JG:** Last time I was in China, people were buying diamond-studded cell phones for \$10,000 each. There's a lot of money floating around there.

*JW:* There is a great deal of unrest about China's own environmental problems. Citizens are becoming more concerned and making demands. They're going to have to start spending money on greening their economy.

**JG:** They will spend on the environment but none of this is going to shut off growth. They still have considerable modernization needed internally. At most, the days of 8-10% growth are going to last another few years.

*JW:* It's just like the stock market returns of 8-10% are now 4-5%, if you're lucky.

**JG:** On the bright side, we've now had ten years with no growth in the market. The odds are it will be another ten years. If you can delay your retirement for twenty years, you should have ten years of good growth after that.



## Africa

*JW*: What should the U.S.'s goals be to help Africa with its varied security issues, failing states, and country-by-country low-income distributions?

*JG*: The goals are easy to state, but hard to accomplish. The goals are a more democratic Africa with stable governments, good rule of law, and moderate balanced economic growth. You want Africa to look like Denmark or Switzerland, fine. The difficulty is what U.S. policy should be in order to promote that goal; we have many disagreements as to means. Some say: 'Leave things alone; let the markets grow naturally.' Others comment that markets can be very dangerous and divisive, especially when you have corrupt governments and ethnic conflicts.

My suggestion is to leverage regional political organizations. The African Union can be a force for good if it starts setting a standard for democracy and accountability among its own members. Frankly, African countries will listen to African rulers much more than they'll listen to outsiders. But can you persuade enough African leaders that it is in their interest? One has to start with human rights, rule of law, and fighting corruption, rather than starting with democracy. There are too many governments in Africa who are concerned about democracy and not willing to push for democracy. On the other hand, everybody wants economic growth and development, but excess corruption and human rights' violations damage growth and damage Africa's reputation.

The U.S. should go back to what worked actually at the end of the Cold War, when we didn't attack the Soviet Union head on, but tried to bring them into a global human rights regime that called attention to their problems. They were then forced to deal with a larger and more vocal dissident movement and had

to respect human rights to a greater degree. They even had a reformer in Gorbachev, who wanted a modern face for Russia. They have moved backwards a bit now with Putin. The human rights situation is horrible in Russia if you're a reporter or a businessman who wants to be independent of the Kremlin. You have no protections. But for ordinary Russians, the human rights situation is still better than it was for most of Soviet history.

In Africa, the human rights situation in many countries is improving. There's a long way to go particularly with corruption and accountability of rulers. In many ways, the Arab Spring was more about accountability and corruption than it was about popular sovereignty. People were just fed up with government stealing. The African Union was the last global group to recognize the fall of Ghaddafi's government in Libya, but they've come on board now. South Africa has been supporting the Mugabe government in Zimbabwe because they don't want to be inundated with potential refugees. But they need to be embarrassed more about this. They need to be told that this Mugabe regime is a human rights travesty and South Africa should not have the respect of its neighbors if it's going to prop up this regime.

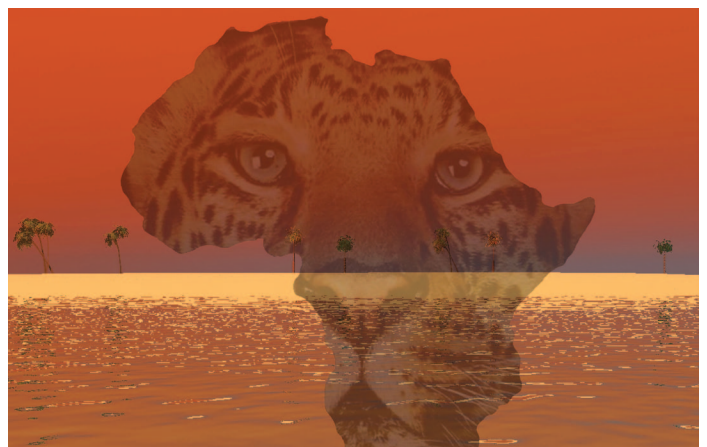
*JW*: And South Africa is supposed to be kind of a leader in the region and in some respects, one of the most advanced democracies in Africa.

*JG*: However with 40% unemployment, it has its own problems. I can understand its reluctance. You cannot expect South Africa to prop up the Zimbabwe

government, and absorb whatever problems follow. It is not fair to them. But if they had the entire African Union with them and some stronger support with other developing countries, they might be able to pull that off. Oddly enough, even Burma has been giving more freedom to protesters. There's hope everywhere.

*JW*: Are there European countries that could help Africa in ways that the U.S. cannot because of proximity and past influence?

*JG*: Even though France and Britain are trying to keep up their financial support for activities in Africa, it's going to be difficult. It is no longer the case that the West is flush with cash to spend, and developing countries able to absorb it. Frankly, that didn't work out so well anyway. The shift in development assistance is going to be more in the direction of technical assistance and trade agreements and less in the way of loans and direct aid. Technical assistance is very important for dealing with anti-corruption and the rule of law. Trade agreements are most important for economic growth. There are terrible obstacles for textile exports, for example, from North Africa to Europe. Pakistan doesn't have favored textile exports status with the U.S. They receive a few billion dollars in military aid from us, but what they really need is export markets and we deny them that. We should not expect these countries to



do better economically, and expect their young people to look forward to a future, if we won't trade with them as freely as we trade with Europe.

*JW*: That's a good point...

**JG**: The U.S.-Pakistan relationship is just at rock bottom right now. The trade agreement is one of the few things that could move it forward.

### Middle East

*JW*: Can you play forward your observations about countries of note in the Arab Spring?

**JG**: I remain optimistic. I think that Egypt will move into a reasonably competitive election. The Islamists will not dominate the parliament. There will be some extended power struggles and there will be some efforts to shape the constitution to favor this or that group. The military will want a special position. The power of workers, students and professionals will be able to stand up to that of the military and the Islamists; you'll have a wide-open competitive political system. It will be chaotic. There will still be problems with corruption and accountability, but Egypt can have a spirited free press, active labor unions, and political participation.

Tunisia should be similar. A lot depends there on whether the Islamists are able to unify. In Egypt, the Islamists are so divided between moderate Islamists, extremists, young and old, that I'm not too worried. But Tunisia has a more established and unified Islamist party that could be stronger. I still think that Tunisia will be like Egypt.

Libya: One has to worry about the real risk of ongoing conflict because the leadership is weakly established. There are many regional ethnic divisions in the country. This is a country where NATO needs to remain involved in peacekeeping, police training, and helping a country that does not have much experience with

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either democracy or international governance to move forward. Tunisia and Egypt both have pretty large cadres of people who have served in international organizations. Libya has some, but fewer. They're relying a more on ex-pats. They can use external assistance. If you would grade the future of Libya based on how well the transitional government has performed so far, you'd have to say they've done extremely well.

Compared to what happened in Iraq it's night and day. In Iraq there was looting and sectarian rebellions early on. Whereas the national transition council in Libya has kept supplies, food and water available. They've managed to squelch conflict. There is no looting. People say this is surprising. It looks good.

Morocco is a very important country. It has been under the radar because its change has been less violent. The monarch has moved forward with constitutional reform in a way that has generally pleased and not frustrated people. If they can keep that up, they will do well.

Jordan has not moved as fast as Morocco, but I think they need to follow Morocco and give more support to a constitutional government if they want to keep their population satisfied.

Bahrain is going to remain troubled. They have divisions within the monarchy and between the monarch, the prime minister, and the crown prince. They all differ in how much they'd like to work with the opposition. The Shia opposition remains very intent on pushing for change although they're not amassing in the streets because they know they can't do it. They're still threatening to strike and protest, if they can.

Algeria should remain stable and slowly follow the other countries in the region. If the other countries look like their democracies are working out, Algeria will be pressured to reform. If there's a renewed civil war in Libya, then things could get complicated. With Algeria, we have to wait and see.

Syria is the big question right now. An earlier blog post of mine was "Serious in Syria." The level of violence has recently escalated. There was a young woman whose brother was an activist. She was tortured and brutally murdered. The army moved into a suburb of Aleppo. That's new. Aleppo hadn't been touched before and now it's becoming part of the battleground. That would be important.

A number of defectors from the Syrian army have said they will start planning for a non-resistant movement using our military experience. I think we're reaching a stage now where peaceful protest has not brought the gains that were expected, and people are looking for new ways. They're not giving up. I would like to see more economic pressure through strikes. It's difficult to organize strikes because Syria is watching unions and labor so closely; it's hard to get messages out to organize them. The defections from the military remain small. If they increase, as they could, with more bloodshed and martyrdom, that would be significant. The economy is continuing to weaken. Europe just sanctioned Syrian oil, and that will hurt.

*JW*: How much do they produce?

**JG**: It's about 10% of the economy and a larger percent of government revenues. Ninety percent of their oil goes to Europe. That's a big market



for them and that's going to be a significant loss.

One of my friends speaks of a silent majority in Syria that hasn't spoken out. If the economy continues to deteriorate, the silent majorities will join the protestors and that will put the government on the ropes.

*JW:* Sounds like what's happening in our country in a way with deficits and debt. The silent majority is finally speaking up?

*JG:* Obama is on the ropes. People are definitely fed up. A majority do not support the Tea Party policies, but they support the Tea Party attitude.

#### Demographic time bombs

*JW:* What is the most pressing time bomb, in your mind? What's the one that worries you the most?

*JG:* There's a short-term time bomb and a long-term one. One that I did not foresee and doesn't really have anything to do with demography, is the severe dysfunction of European and American governments. We have big problems on the horizon. The world is going through a dramatic change. The policies that worked so well for us in the past will not work in the future. They may need to be

strengthened and renewed, and in other respects, changed. We need to act together and determine what we as a country will do to assure our future. Instead, people are fighting over the pieces.

Collectively there is agreement for the need to change but nobody wants their own benefits cut or taxes raised. If everybody thinks that way, we're in trouble. The same thing is happening in Europe, where they were making progress towards European Union and financial integration, but not enough to create a common European treasury. No government wanted to give up that much control over its national economy. Now there is a European-wide fiscal crisis that can't be solved with seventeen different countries, each following their own policy. No one is willing to budge. I worry that in the short term, we're heading towards another serious long depression because of political deadlock. I call this the "selfish elite syndrome" — rich countries' economies suffer major hits because they're not willing to face up to their liabilities.

The longer term, the big bomb I worry about, is the quality of the labor force in the developing world. Nine of out every ten children will

grow up in a developing country. Almost half of them will be in China and India, the rest of Africa, Latin America, and other parts of Asia. Without a decent education and a solid chance for a future, we face a world fifty years from now where 80-90% of the workers are less productive than the workers in leading countries today. That will be deadly for them and for us. I don't think enough is being done about this.

There is room for some major global philanthropy to create a global campaign. Global literacy is improving. The younger generation is 95% literate in China and 80% in India. But between 5<sup>th</sup> grade and college — where young people need to acquire technical skills and creative thinking skills — that's where it's not happening. Teaching people to read, write, and basic arithmetic is easy but it's not enough for the economy. If they don't learn some algebra and how to write well, at this point they don't get it. You can teach technical skills later, and we need those in the world, too. But the generation of leaders will be very small, which can suffice, but you're taking a tremendous amount of potential off the table. That's my biggest worry.

Rich countries have their problems, and I think the problems of American education are exaggerated. We have more of an inequality problem than an overall quality problem. In so many American schools, we have 15% - 20% students who are actually coming from really difficult family situations and struggling before they even get to the school's gate. That is a different problem in education.

Kids are eager to learn in developing countries. Teachers' salaries are stolen at the ministry. They don't have school books or paper (in India). Some will overcome that. The world needs a new set of breakthroughs —

and they won't all come from the US or Europe anymore.

#### Urban issues

JW: What about urbanization and city-level issues with growth?

JG: A number of the middle-sized cities in China, in the 3-5 million population range, are doing a very good job trying to build their cities up. The model for many developing world cities is something like Pittsburgh, which has gone from a rather dirty, productive steel town to a clean, beautiful, intellectual service medical hub. The model will not be New York City or Washington. The goal for many third world cities is to achieve a balance — have enough clean water and open space, keep the workforce employed, and move into the global service sector or high-value sectors. A recent case, Rio de Janeiro, is making an effort to pull itself up from crime and drug problems. It is becoming a pleasant place to live again. Having some offshore oil may give them the revenues to do that.

In Africa, Addis Ababa is a relatively safe and pleasant city for Africa. Chinese workers are improving the infrastructure, but it works mainly because the government is reasonably attentive to providing security for the city as a whole. You can walk around without being accosted. Other cities, not so much. People used to look at Cote d'Ivoire and Abidjan but the civil war has destroyed that.

Most cities in China are just going headlong for growth, same in Indonesia and India. Although in India, some high-tech cities are improving their surroundings. On the one hand, you have fast-growing, horribly-polluted, growth-at-all-cost cities like some in China. There are overrun cities that are not coping very well like Karachi and Mumbai.

There are these pristine demonstration model cities that countries build as cities of the future, but they're not practical or self-sustainable. These model eco-cities are toys essentially or

concept vehicles. Paul Romer has a company that is trying to get developing countries to turn over the governance of cities to professional administrators. They provide the technocratic managers for the city in a country to make it environmentally sustainable but still economically viable.



## GeoEdge BLOG

Exploring the frontlines  
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