



## RISING THROUGH THE CRISIS: THE IMPACT OF EMERGING COUNTRIES ON THE FUTURE DISTRIBUTION OF POWER

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**Abstract** *The article reviews the economic performance of the main emerging countries before and throughout the global economic and financial crisis as well as some projections regarding their economic performance in future. It argues that the rising powers' likely impact upon the future global economic landscape would be a move towards multipolarity, although its outlook presents still many uncertainties.*

**Key words:**  
Emerging powers, crisis, projections, multipolarity  
**JEL Codes:**  
F5

### 1. Introduction

The global economic and financial crisis has exposed the fragility of developed economies and the dynamism and resilience of a handful of large developing countries led by China, India, and Brazil, accelerating the shift of the economic power away from the West. Four sources of growth have pushed developing economies forward, including capital accumulation, technological catch-up, growing consumption, and natural resource availability (Canuto, 2011). In 2008-2009 China, India and Brazil contributed 70 per cent of global growth. Throughout 2009-2011, they had average growth rates of 9.5 per cent, 7 per cent and 4 per cent, respectively, compared to less than 1 per cent in the U.S. and average negative growth in the EU (Grevi, 2011, p.3). Perceived till recently as dependent to their more powerful Western partners, emerging economies now weigh more than Europe in terms of large listed companies' aggregate value, according to the *Financial Times* Global 500 rankings (Véron, 2011). In the summer of 2010, surpassing Japan's economy, the Chinese economy has become the second largest economy of the world. Significantly enough, this happened 15 years ahead of the moment – 2025 – projected at the beginning of the crisis, in 2008, by the National Intelligence Council, the US intelligence community's centre for midterm and long-term strategic thinking (NIC, 2008, p.29).

### 2. A trend confirmed

Between 1995 and 2010 China's weight in the world economy has more than quadrupled. Currently, three out of the world's five banks by market capitalization are Chinese, including the top two. During the same

period, the other three BRIC<sup>1</sup> countries – Brazil, Russian Federation and India – have also seen their shares grow (Ahearn, 2011, p.5). Whereas in 1995 the BRIC countries cumulated approximately 7 per cent of global GDP, in 2009 their share more than doubled, reaching 15.5 per cent of global GDP. Although in 2011 and 2012 the BRIC countries have experienced a noteworthy slowdown, due to a combination of challenging external conditions and domestic hurdles, growth in the economies of Brazil, India, and Russian Federation are expected to strengthen and, in the case of China, to stabilize (United Nations, 2014, p. 21.) Whereas some projections deem that somewhere throughout the 2040-2050 decade the BRIC countries would match the share of the old G7 in the global GDP, Jim O'Neill, the economist at Goldman Sachs which coined the BRIC acronym, estimates that the BRIC economies together will outrun in dollar terms those of the G7 by 2027. By 2025, the economies of six emerging countries – Brazil, Russia, India, Indonesia, China, and the Republic of Korea (the BRIICK countries) – are expected to collectively account for more than half of all global growth and match the combined real output of the Eurozone (World Bank, 2011, pp.3, 13). Although China's growth cooled down from 9.3 per cent in 2011 to 7.7 per cent in 2012 (Schwartz, 2012), the Chinese economy is still able to possibly surpass the American one by 2030. Moreover, by 2050, the nominal GDP of China (calculated at current exchange rates, which takes into account the level of inflation) could be almost 20 per cent larger

<sup>1</sup>BRIC: Brazil, Russian Federation, India, and China.

than the U.S. or even twice as big as that of the U.S., while India could match the America's level. By that time, other countries, including Mexico, Indonesia and South Korea could rise up to equal levels with most G7 countries in terms of nominal GDP, even though only Mexico and South Korea will be able to rival them in terms of GDP per capita. These GDP projections should be interpreted with caution as each of the rising economic powers faces internal challenges or obstacles that could easily disrupt the long-term growth projections. However, it is clear by now that the global economic landscape is changing and is changing rather fast (O'Neill, 2008/2009, pp.231-243; Renard, 2009, pp. 21-22; Ahearn, 2011, pp.6-7).

### 3. Towards a new Bretton Woods?

Emerging countries have accumulated large foreign exchange reserves, two thirds of which are denominated in dollars, which in 2010 amounted to 15 per cent of global GDP (Pisani-Ferry, 2010). China is the largest holder of financial assets in U.S. dollars worldwide. In 2010, with \$2.8 trillion of foreign exchange reserves, China accounted for 66 per cent of all developing economies' exchange reserve holdings. China is also the largest holder of U.S. Treasury securities. In May 2011 with \$1.2 trillion in holdings, China accounted for 25 per cent of total foreign holdings and 50 per cent of developing country holdings. These holdings in part reflect the tendency of the U.S. and several other industrial economies to consume beyond their current income or to consume more than they save (Ahearn, 2011, p.19).

Some of the emerging countries show signs that they no longer support the system by which in order to finance its enormous military expenditures, to maintain its geopolitical influence and to cover its balance of payments deficit, the U.S., via U.S. Federal Reserve, print large quantities of dollars and pump them in foreign banks, for the latter to buy U.S. Treasury bills and bonds. Since it is the most important world creditor and it is on the brink to become the main exporter worldwide, China in particular is concerned about the potential inflationary risk of the U.S. Federal Reserve printing fiat money without respite. Because the dollar has significantly lost value and it requires a current-account deficit, there have been repeated calls for an end to the long supremacy of the dollar as the main reserve currency. Russia and China have criticized the dollar's monopoly in foreign exchange markets and have issued detailed proposals for reducing reliance on the dollar as the world's main reserve currency. China, Russia, and Brazil talked about using new International Monetary Fund (IMF)-issued bonds to diversify their central bank reserves at the expense of U.S. Treasuries, while in 2009 reports of a shift away from

dollar-based oil trading came out in the open in the Middle East (Zoffer, 2012, p.4).

Emerging powers argue that the reserve status of the dollar allows the U.S. to borrow almost without limit (and, in the process, run limitless trade deficits). Moreover, they say that an international monetary system in which the dollar, the euro, and China's renminbi (RMB) or, alternatively, only the American and Chinese currencies share the reserve currency role would be an improvement over the current system where countries seeking to accumulate reserves have no alternative to accumulating dollars (Richburg, 2011). Calls for remaking the international economic and financial institutional architecture as to more adequately reflect changing economic weights in the world economy and be more responsive to future challenges have been frequently addressed against the backdrop of the crisis. The BRICS<sup>2</sup> countries, for instance, have discussed proposals for alternative currencies to the U.S. dollar, establishing a new bank for investment in the developing world and shifting attention from the traditional global economic powers to the emerging markets, particularly in the east and south. The uneasy prospects of the developing world creating its own financial structures and economic links put pressure on the West to accelerating the refurbishing the current Bretton Woods system. The reform process mainly under the G20<sup>3</sup> umbrella to address changes in policy, regulations, oversight, and enforcement of financial rules and to secure emerging and developing economies a greater voice and representation in international financial institutions has been labelled by some a new Bretton Woods, and by others the Bretton Woods II or the Bretton Woods 2.0 (Nanto, 2009, pp.6, 65).

### 4. Conclusions

The global economic and financial crisis has accelerated the shift of the economic power away from the West. This trend is reinforcing the relative

<sup>2</sup>BRICS: Brazil, Russian Federation, India, China, and South Africa.

<sup>3</sup>The G20 is an informal forum that promotes dialogue between the biggest industrialized economies and rising emerging powers on key issues related to global economic stability. It is made up of the finance ministers and central bank governors of 19 countries, including the G8 (US, UK, France, Germany, Japan, Canada, Italy, and Russia) and the G11 (Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea, and Turkey) plus the European Union, who is represented by the rotating Council presidency and the European Central Bank. After the outbreak of the financial crisis in autumn 2008, the G20 was elevated from a forum of finance ministers and central bank governors to a gathering of heads of state.

consensus that has emerged in recent years about an unavoidable shift of power from the U.S. and Europe towards the rising powers in Asia (Kose and Prasad, 2010, p. 1), i.e. a move from an American-led Western world towards a post-American and post-Western world (Zakaria, 2010, p.1; Serfaty, 2011, p.7), although there are still ample voices which dispute this idea (Cox, 2011, pp.416-424; Van Agtmael, 2012). Without an actor willing and able to affirm its prevalence, or to share it with co-partners and rivals, the unipolarity has been substituted by a distribution of power which has been labelled 'nonpolarity', 'apolarity', 'de facto zero-polarity', or 'interpolarity' (Haass, 2008; Ferguson, 2004; Serfaty, 2011, p.8; Grevi, 2009).<sup>4</sup>

Although we are not there yet, in light of the current and likely future economic performance of the emerging countries, it has become clear that the world is moving towards multipolarity, at least in economic terms. What it is still not clear is if the incoming 21<sup>st</sup> century global order would be one of true multipolarity, one of asymmetrical multipolarity, with only a few dominant powers, seconded by other major, regional and local powers, or one of 'multi-multipolarity', in which the power would be diffused both at the global and the regional level (Friedberg, 1993/1994, pp.5-33). Even more uncertain is the nature of the relationships between these various actors, i.e. if the multipolarity would be a competitive or cooperative one (Renard, 2009, p.7).

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<sup>4</sup>Whereas the nonpolar world is 'a world dominated not by one or two or even several states but rather by dozens of actors possessing and exercising various kinds of power' (Haass, 2008, p.44), the interpolar world's key characteristic is 'multipolarity in the age of interdependence' as far as economy, energy and environment are concerned (Grevi, 2009, p.9).

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