

ARTICLES

The Emerging World Order

PETER COLLECOTT
Special Adviser, Ph.D.

The Prince's Charities' International Sustainability Unit
UNITED KINGDOM
<http://www.pcfisu.org/>

Abstract

It is common ground amongst almost all commentators that the world has changed radically over the past 25 years – the 25 years since the fall of the Berlin Wall heralded the ending of the Cold War, the reunification of a tragically divided Europe, and the acceleration of the process of globalisation which has its only comparable period in the decades leading up to the First World War in 1914. When analyzing the Emerging World Order it is important to cover more than Brazil economy or any other individual BRICs or other Emerging Powers. Instead, our analysis will provide a global view about the economic and political global power structures which are evolving and forming before our eyes, and then to talk about the challenges these emerging realities pose for us in Europe, and in the West in general.

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1. Introduction

That first wave of globalisation is a warning to us that globalisation, in all its manifestations, is not an irreversible process. Unlike some opinions expressed in the literature in the field (Hopkins, 2003), I am not one of those who think that the current wave of globalisation will come to a shuddering halt as that first wave did in 1914, as Europe plunged itself and then the whole world into war. It could have come to a halt five years ago as the Global Financial Crisis hit, but we managed to avoid the retreat into protectionism that characterised the reaction to the Great Depression in the 1930s. However, I think the past five years have also reinforced for many people the perception that, despite all our hopes, it is not inconceivable that parts of Europe could slip back into populism, authoritarianism and conflict. So a sudden end to the current wave of globalisation is not impossible, but it does look pretty unlikely.

2. Globalisation in the Emerging World Order

Some analysts (Al-Rodhan, Nayef and Stoudmann, 2006) consider that globalisation is, of course, an omnibus term for a number of features of our current world, largely on the economic side, and, to a degree, on the social and political sides. The economic side is pretty clear, I think: the emergence of economic links and structures across the globe, and of global supply chains and global trade and financial flows. Global efficiency but also global interdependence has increased

dramatically. Economic resilience has probably increased, as dependence on others has been balanced by multiple possible supply chains. However, paradoxically, financial fragility may have increased, as we saw five years ago.

By the social side of globalisation, I mean everything which affects people in their private lives: the ability to communicate instantly across the globe and hence the ability to build personal relationships across the globe; the ability to travel relentlessly as many do; and to study and work in other countries, as many do; and, for certain segments of society— usually a very privileged segment – to feel that they are increasingly citizens of the world, rather than of any particular country.

However, as showed previously in some analysis (Acocella, 2005), this economic and social globalisation has not led to anything which approaches a globalisation of political structures, or even political ideas. There was, of course, a time early on in the process when many in the West believed that the combination of liberal economics – the Washington Consensus if you like – and democratic politics had shown its prowess in winning the Cold War, and now ruled the world. There was only one route to development, just as there was one dominant economic, political and military power, the USA. We would all now live in a Brave New World of the Pax Americana.

A combination of factors shredded this concept – perhaps, for some, this hope. Firstly 9/11 and the disastrous wars in Iraq and Afghanistan. Secondly, the rise of China, and of other emerging economic powers, all of whom expected to exert political influence and power along with their increased economic leverage; and not all of whom believed that there is a necessary link between successful capitalism and democracy. I think the jury is still out on whether the Chinese, in particular, can sustain their successful capitalist economy beyond the “catching up” phase, without substantial liberalisation of their political system. However, that is certainly the intention of Chinese leaders. At the very least the West cannot be said to have yet won the battle of ideas.

Perhaps the two most important things to say about the so-called “New World Order” to emerge over the past 25 years is that it is not showing that it is particularly full of order; and that it has certainly not emerged. In fact in many ways we could say that we are living through a period of considerably less global order than in the post-War period; and that having lived through relative stability – not to say ossification – of systems for about 40 years, we are now living through a period of rapid and rather disorienting change. Whether this is just a prolonged period of transition, or will settle down into a new world order with some renewed stability is difficult to judge at this moment when we are right in the middle of that change. My best guess is that continual shifting power and structural relationships are going to be with us for some long time. So we need to adapt both to the results of change, and to the process of continual change itself.

How should we characterise this world we are now operating in? My contention is that although Governments and Nation States are losing their potency in the economic sphere, they are still important actors there, and in the political and security spheres; and they are still the identities with which most citizens identify, and to whom citizens turn to protect them from adversity and to provide the conditions in which those citizens can live successful lives. So, even when talking about economic issues, I will tend to look at things through the prism of the Nation State.

Economically it is clear that the majority of global GDP is still generated by the West – in which I include Japan – who also have the largest stocks of fixed capital. However, the Emerging Powers are already providing the majority of the annual increments in both GDP and fixed capital, so it will only be matter of a few decades, if that, before they catch up on the GDP and fixed capital. I don't have any good numbers for this, but my impression is that something similar is happening in

terms of financial assets. We know of the huge foreign exchange reserves built up by emerging nations, and can see the assets of the huge Chinese banks, so I suspect that something similar is happening to the balance of financial assets. It looks very much as if the balance of economic power is definitely shifting from the developed world to the emerging world.

On the other hand, there are no signs that I know of that the preponderance of Western economic ideas – of the foundations of the capitalist economy – are being seriously challenged by new ideas of how better to organise a productive economy. At the margins, the Japanese some years ago, and the Chinese more recently have undoubtedly introduced improvements in production and organisation. However, there is no coherent fundamental theory of a different kind of, say, Asian capitalism which is challenging the dominance of Western ideas. So talk of a Chinese century, or of Chinese dominance needs to be tempered. It will probably not be the kind of practical and intellectual dominance that the US used to have.

As a number of commentators have pointed out, the process of globalisation which is driving this shifting of economic power is having the curious effect of both reducing the inequalities in average GDP per capita between countries, while in most countries increasing the inequality of GDP per capita within countries, both developed and emerging. The one major exception to this is Brazil, where inequality of income, as measured by the Gini index, for instance, is on a steep decline, albeit from a relatively high level.

I am a firm believer in the primacy of economics, in the sense that in the long run political influence and power is determined to a large degree by economic power. It is undoubtedly true that political power can support the economic interests of the state. The Pax Britannica in the 19th Century, and the Pax Americana in the second half of the 20th Century are evidence of that. However, as Paul Kennedy notably pointed out the fall of the empires of Great Powers is almost always from imperial overstretch – when the economic power of the state cannot sustain its political ambitions. Economics eventually asserts its primacy.

However, it is usually the case that there are lags between changes in economic power and concomitant changes to political power. Incumbent powers tend to be able to hang on to their political power for some while after their economic power wanes; and, on the other side, it takes time for rising economic powers to want to turn that into political power and influence and to be able to change international power structures in their favour.

Nevertheless, we can see that this is already happening to a good degree. China is a singular case because of its size and because it already had a Permanent Seat on the UN Security Council. However, it is noticeable how China is becoming increasingly more assertive in both regional and international issues – beginning to project its hard power into the South China Sea for instance; allying with Russia to block UN action on Syria; and taking a much more assertive line in international Climate Change negotiations. India and Brazil have traditionally each exerted most of their influence through international organisations and in multilateral negotiations – for instance in the GATT/WTO and in the UNFCCC. However, once their economic power began to increase, it was noticeable that they too became more assertive. For instance, Brazil's formation of the G20 (Trade) grouping changed the whole dynamic of the negotiations in the WTO and ensured that each Brazil and India effectively have a veto power, along with the EU and the US, on any future global agreements – as we saw when the India effectively vetoed an agreement on the Doha Round in Berlin in 2007, the closest the Round has come to success.

Similarly, Brazil and India, along with China, are the core of the BASIC group of countries who stymied the Climate Change negotiations in Copenhagen in 2009. And Brazil and India are the two Emerging Powers who, along with Japan and Germany, are trying to demand Permanent Seats on the UN Security Council, not with much success as yet, not least because of Chinese resistance to Japan. However, they and others have been more successful in obtaining more voting weight in the IMF and World Bank.

Some analysts (Gjelten, 2009) believe that perhaps the clearest demonstration of the link between economic and political power was the way in which the Global Financial Crisis forced the relatively obscure G20 (Finance) grouping onto centre stage, with meetings at Head of Government level, in recognition of the weakening of Western financial muscle and their need for political and financial support from the more successful, and less affected, big Emerging Powers.

However, as these examples show, we need to qualify in another sense the manner in which we can talk of the increasing influence of the Emerging Powers as constituting a “New World Order”. Just as there are no signs of a new global economic theory or paradigm beginning to emerge from the new Powers, so on the political front, none of the Emerging Powers, certainly not India or Brazil, and, I believe, not China are truly revolutionary powers. They do not want to overthrow the structures and rule-based systems of global economic and political governance, in favour of some new structures and systems of power which they can dominate. In fact, they all value greatly the rules-based systems, and the bedrock of order this gives to the international system. This is allowing them to emerge economically, and to challenge politically. They want to reform the systems and the rules to give them more influence and advantage; but they don’t want to destroy them. This is not revolution but evolution. However, the balance of power and influence is clearly changing.

Overall, we can say that at present the dominance of the traditional, developed, Western powers in global economic and political governance has been much reduced. It is no longer possible for deals to be done between the EU and the US, say in the WTO, with the expectation that all others will fall into line. The Emerging Powers have demonstrated that they won’t. They have obtained for themselves veto power - in most instances informal, not formal.

However, there is precious little sign as yet that any of the big Emerging Powers, say Brazil, India, China for sake of definiteness, have moved to a situation of wanting to be what one might call “colluding powers”, that is members of a group, such as the EU and the US formed previously, who saw that at root their interests were very similar, even if they fought hard over detail; and who wanted to do deals, in their own interest but also because they had a sense of collective responsibility for the institution or for the defence of global public goods, be these peace and security, a trading system based on enforceable rules, or a global system to protect human rights.

This may sound very abstract. However, global public goods matter in very concrete ways. Until recently it was very clear that the US was, and would continue to be the global policeman. War weariness in the US and a weak Administration mean this is no longer so clear. This was exposed recently by Russian tactics over Syria, which successfully played on US, and British, irresolution. If, for instance, the Iranians were to threaten to block the Straits of Hormuz, as they have threatened to do in the past, it is no longer so clear that the US would act – given the American public’s lack of support for further military entanglements, especially in the Middle East, and the US’ decreasing dependence on oil from the Gulf. I suspect that if it was this year they would act; but in five or ten years’ time? Would China or Japan, the two major powers dependent on Gulf oil, have the will and the means to

intervene? And would any country without a direct interest intervene because it was the necessary thing to do to preserve global economic security?

3. Implications for the Western States

Let us finally look at the implications of this incomplete and rather messy picture for the countries of the West and the societies that we enjoy living in. The first and most obvious statement is that the rest of the world does not owe us a living. The American, European and Japanese economies are still very important pieces of the global economic jigsaw – the American economy in particular, which, combined with continued, if reduced, Chinese growth, is the motor pulling us all out of recession. However, even the US no longer has a hegemonic economic position, and it is no longer inconceivable to think of the rest of the world accommodating itself to a slow relative decline of the Japanese, European and even US economic power-houses. The Emerging Powers still need our technology, capital and expertise. However, the gap in sophistication is narrowing. They still need us as markets. However, the growth in South – South trade is dramatic. At some point, we will need them more than they need us. As I say, they do not owe us a living.

We therefore have to decide for ourselves how we are going to create the added value that will continue to support the standard of living to which we have become accustomed, and tend to see as our right. We have considerable advantages – stocks of capital, knowledge and technology, and a well educated and organised labour force. However, we also have a high cost base, and a population that is getting older, is used to high levels of social protection, and is demanding ever more extensive and expensive medical attention. We are not going to be autarkic, even at a European level. So the basic question is what is it that we can produce in sufficient quantity, and at prices that the rest of the world will want to pay, that will support our affluent lifestyles. The usual answer is that we have to build knowledge economies; that is to engage in high technology, high value-added manufacturing and sophisticated services. And that is probably right. We are already not able to compete with emerging economies in whole swathes of manufacturing and basic services provision – think of both manufacture of white goods and consumer electronics and the provision of call centre or software services.

To achieve this shift to a knowledge-based economy, we need to put huge emphasis on maintaining our leading edge in science and technology, and the application of that technology. We need to improve the knowledge and skills base of the whole population through massively improved mass education – at a time when the education system in a number of our countries is failing. And we need to have a renewed emphasis on both quality and competitiveness in everything we do – from manufacturing to provision of services to public administration and governance.

None of this is easy, and I don't think that we have begun to think through the implications of this for our societies. I have already mentioned the dramatic increase in inequality within most countries as the process of globalisation has taken hold. In developed countries this is largely because of the move to high-end, knowledge-based manufacturing and services. An increasing proportion of the aggregate value added is accruing to those with sufficient education and knowledge to hold down the top jobs; ie those who are already earning well. Lower down, many manufacturing jobs have already gone, because industries are no longer competitive; or, where they are high-tech, or are striving to remain competitive, expensive labour is being replaced by less expensive technology.

This tendency is now moving from traditional “working class” jobs on the factory floor to “middle class” desk jobs in offices – and continuing to move up the managerial chain. The older

under-skilled workers are increasingly without full-time jobs, and a whole swathe in many countries is becoming dependent on support from the State in one way or another. The younger and the middle class are feeling increasingly under pressure, and are being squeezed hard. Through sheer numbers they provide the bulk of the revenue for the State, but are not satisfied with the level of public services the State can afford to provide, and struggle to maintain the standard of living they have become used to – and their expectations remain very high. Meanwhile those at the top of the pile are earning more than they can reasonably spend, leading to an excess of savings; and at the same time, as has been stated by some analysis (Joshi, 2009) the Government is scared of taxing them too hard, for fear that they belong to a global and mobile elite, who will just leave. Similarly with many service companies who regularly threaten to move to jurisdictions with lighter corporate taxation.

This situation poses real dilemmas for Governments who don't know which way to turn, and have few levers at their disposal. They are not brave enough to tell the voting public that a society which lives on credit not for investment but for current expenditure is not sustainable; and that this is a sign that the economy is not producing sufficient value added to support the lifestyle that the population aspires to. We are not productive enough for the incomes we are demanding, and are continuing to force future generations to carry the burden of this. This is not an easy message for a politician.

Other difficult message which politicians therefore duck are that there is a tension between social provision and proper incentive structures in our economy; that middle class expectations of increasing affluence and higher social provision are not affordable without people working harder for less; and that the remuneration structures in firms engaged in many internationally traded goods and services are out of kilter, serving the interests of the managers not the shareholders or the wider economy.

However, there is no way back to the more hair-shirted economic liberalism of the 19th Century. Partly for the good reason that we now acknowledge that there are important public goods within a polity that the market will not provide, so need to be provided collectively by the state. However, partly also because having allowed the welfare state to expand beyond the public good of a safety net, and politicians having used welfare state mechanisms to make their economic management look better, and to buy votes – eg allowing millions of people to claim disability benefit so that they did not appear on the unemployment register – there is no way back. Or rather, the reform of the welfare state which is now overdue is very tough administratively and politically.

This whole issue – how do we reform our whole economy and social system in order to maintain ourselves in this new Emerging World - is a problem which is bigger than Governments. One which requires a political dialogue in our countries which I am not aware has started anywhere. Perhaps in the Scandinavian countries, where the income disparities are not so great, and there is an expectation that wealthy individuals and firms will be taxed heavily in order to fund the social welfare system which ordinary citizens expect. It is this kind of renewed social contract which is needed in all our societies. However, we also need to go beyond this, to build societies in which there is not a permanent underclass, however well-provided for, who are dependent on the State; which in turn is dependent on a wealthy elite for a willingness to pay high taxes to finance the State. That way lies social tension and division.

We need instead a renewed emphasis on social mobility, and not just rotation between the top and bottom over time, but a determination by our societies to lift their game, through education, training and entrepreneurship, and by becoming more self-reliant. Government needs to take the lead

in this. However, it will require courage, realism and a degree of humility on the part of politicians and other leaders. And it will need the engagement of all elements of civil society, and of individuals. It will be far from easy, but I do not see any alternative. The sooner we have the vision and the courage to begin this process, the sooner we can hope to come up with a way forward, which preserves both our economic prosperity but also the open and free societies in which we wish to live.

4. Conclusion

To sum up, we live in a New World, for sure. However, it is a New World which has not yet emerged – it is still in the process of evolving from the world which we knew before. And it may not ever really stop evolving. Continual change and instability could be the way of the future. In some ways this continually evolving world will not seem very different – we are not going through revolutionary change. However, it may well feel very different. And it will be a considerable challenge to us in Europe. We have come to the end of several centuries of European, and then Atlantic, economic and political domination of the globe. So we need to adapt ourselves to the New World, and rapidly. This will require all the skills and ingenuity we can muster, and all the social cohesion that has been built up. And the sooner we start this process, the easier it will be for us. Delay will be costly, and could be seriously so.

It is our opinion that in the globalization era, world economic powers are materially so much better off than any previous generation and innovation in every areas seems set to continue. So we are equal to the challenge. We just need to recognise the challenge, and to meet it head on. Just doing that might do us all a lot of good – in terms of social cohesion, and being positive about the future.

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