“The rise of the South” and “the decline of western dominance”? Challenging the conventional wisdom

Robert H. Wade

March 2013
Common narrative: the new world order

• (1) ‘South (or East) is rising economically, catching-up with North (maybe ‘leapfrogging’)’;
• (2) ‘previously “unipolar” world economy has become “multipolar”’;
• (2) ‘increased economic “weight” of EMEs is being translated into increased “influence” in global econ governance organs; therefore...
New world order

• ‘The long-standing “global govc deficit” being reduced; world order increasingly “multipolarity with multilateralism”’.

• Eg creation of G20 in 1999 at finance ministers’ level (G20F) & elevation to leaders’ level in 2008 (G20L)

• Many analysts say this emerging world order constitutes ‘progress’, as larger % of world’s population ‘represented’ in global pol decisions
For US/Western capitols, bad news

• Plays into politics of fear
• Wikileaks cable from the senior US official for G20 process, in January 2010.
• BASIC = Brazil, SAfrica, India, China
• “It is remarkable how closely coordinated the BASIC group of countries have become in international fora, taking turns to impede US/EU initiatives and playing the US and EU off against each other”.
My argument: summary

• Conventional wisdom exaggerates at both ends:
  • (1) Economic rise of South/East exaggerated – with major exception of China
  • (2) Political (influence) rise of S/E in global governance exaggerated. Western states continue to lead.
  • (3) But some DCs have become more assertive of national interests in global govrc than before.

Result: *stalemates*. World order closer to “mini-polarity without multilateralism”. Or, “a G0 world order”
Outline

• I  Evidence on “economic rise of East/South”
• II  Case studies of global econ orgns
• G20; World Bank & selection of another American to be president in 2012; World Bank ‘voice reforms’ of 2008-2010; Chiang Mai Initiative (CMI)
• III  Conclusions
Measures of rise of South

• (1) GDPPC level: reduction in the gaps b/w North & regions of South
• (2) GDP share of world output: rising share of DCs
• (3) GDP growth rates: DCs growing faster than ACs
• (4) Role in international capital markets: growing role for some DCs. Rise of new currencies in X-border transactions
The Lay of the Land

Figure: The evolution of average GDP per capita in Western Offshoots, Western Europe, Latin America, Asia and Africa, 1000-2000.
FIGURE 2.1: Per capita income in 2000 US dollars

Source: Calculated from World Bank World Development Indicators online.
SW = China+

**China**
% of world GDP

**India**
% of world GDP

[Graphs showing the percentage of world GDP for China and India from 1980 to 2010, comparing Market Exchange Rate and PPP Exchange Rate.]
Indonesia, Brazil, Russia & South Africa, % of world GDP

Indonesia

Brazil

Russia

South Africa

---

OECD

OECD DEVELOPMENT CO
# Shares of world popn & GDP (MER), 1980, 2010

<table>
<thead>
<tr>
<th>SHARE OF WORLD POPN AND GDP (%)</th>
<th>Popn 2010</th>
<th>GDP 1980</th>
<th>GDP 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>4.5</td>
<td>25.1</td>
<td>22.9</td>
</tr>
<tr>
<td>China</td>
<td>19.4</td>
<td>1.7</td>
<td>9.4</td>
</tr>
<tr>
<td>Jpn</td>
<td>1.8</td>
<td>9.9</td>
<td>8.7</td>
</tr>
<tr>
<td>Germany</td>
<td>1.2</td>
<td>8.2</td>
<td>5.2</td>
</tr>
<tr>
<td>India</td>
<td>17.8</td>
<td>1.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.8</td>
<td>2.1</td>
<td>3.4</td>
</tr>
<tr>
<td>S Africa</td>
<td>0.7</td>
<td>0.7</td>
<td>0.6</td>
</tr>
</tbody>
</table>
US/West dominance of K mkts

• US dominates global capital market, thanks to its national currency doubling as international reserve currency; $ remains dominant currency
• UK, Europe and Japan follow on behind as next most powerful players in global capital market.
• US’s central role gives US Federal Reserve, US Treasury leverage over other governments, especially in crisis conditions like 2007-?
Basis of catch-up story?

• (1) **Halo effect of China**: Seen as ‘challenger’ to US only once it started running large +s with US.

• (2) **Fast rate of growth of South over 2000s**: LICs & MICs have grown (GDP) much faster than HICs.

• Growth gap of 4-5 percentage points historically unprecedented.

• (3) **Big GDPs**: A few DCs with giant shares of world population now have GDPs which put them into top 10, forcing some ACs out.
Smoothed annual growth rates, 1980-2010
(Hodrick-Prescott filter)

Source: DEV calculation based on WDI data
What is fast growth of DCs over 2000s based on?

• Unsustainable growth in ACs after 2002 played major role in fast growth of DCs. DC growth has NOT ‘decoupled’ from G7 growth: still highly synchronised

• Fast growth in LAC & AF based to large extent on fast growth of exports of land-based products to China

• But rising dependence on land-based exports has costs, as well as benefits: especially to development of industrial base

• CHART
Latin America: Return over assets

Source: author’s calculation based on Revista América Economía concerning the 500 largest companies in Latin America.
Global governance

• Over 1990s & 2000s West continued to dominate global governance, DCs took virtually no initiatives/leadership

• Study of more than 50 transnational institutional innovations over the past 1 ½ decades found pronounced North-South governance gap. Innovations include public, private, and hybrid: such as transgovernmental networks (e.g., in finance, and accounting), arbitration bodies (e.g., the World Bank’s Inspection Panel), multi-stakeholder bodies (e.g., Global Polio Foundation), & voluntary regulation (e.g., Marine Stewardship Council); also World Commission on Dams.
Global govc (ctd)

• CONCLUSION:
  
  “[M]any of the programs rely on Southern participation and serve the interests of Southern stakeholders, [but] none of the innovations in transnational governance gathered here can be described as a Southern-led initiative. Instead, Northern actors have driven institutional innovation: states, NGOs, corporations, and international organizations”. (Hale and Held, Handbook on Transnational Governance 2011)
Structural probm in glob governance

• The relatively small number of ACs cooperate much more closely than DCs, which are more numerous & have greater heterogeneity of interests

• Rise of China as manufacturing workshop of world raises conflicts of interest b/w DCs (eg b/w China & LAC). *These conflicts of interest reduce DCs’ influence in global govc*

• Cooperation b/w states at top table of global govc now more difficult than before. Earlier high correlation b/w (a) ctry rank of GDP & (b) ctry rank of GDPPC is falling.

• Eg China: # 2 in GDP; # approx 80th in GDPPC.
G20

• Established in wake of East Asian/L Am/Russian financial crisis of 1997-99, at finance ministers’ level (G20F).
• Initiative of West (G7: Canada, Australia, Germany, UK, US).
• G7 invited 11 DCs + Australia + EU to join at top table
• Upgraded to leaders’ level in wake of West’s crash in 2008
• Intended to be equivalent of UNSC for econ/finance/devt, but without “authority”
G20 (ctd)

• Sarkozy: “G20 pre-figures the planetary governance of 21rst century”.

• But the 182 UN members permanently excluded see things differently. Eg Norwegian foreign minister: “G20 is biggest setback to international relations since WW2”.

• G20 lacks “input legitimacy” (representational legitimacy); & lacks “output legitimacy” (derived from effectivness)

• “A group in search of a mission” (Pickering & Hannay, International Herald Tribune 28/11/12)
G20: input & output legitimacy

• Input legitimacy (representational legitimacy)
  • How were the G20 members selected? 1999: Timothy Geithner (Deputy US Treasury Sec); Ciao Koch-Weser (German-Brazilian, in charge of international financial affairs, German Fin Ministry)
  • Fatal flaw: (1) membership cannot be ‘reverse engineered’; (2) no representational structure (eg constituencies)

• Output legitimacy: After first 3 summits (2008-09) G20L have accomplished little. Eg recommended that WB transfer 3 pcp of votes from ACs to DCs. Has not happened. Eg Basel 3 is a “mouse”
From G20 to GEC

- G20 not viable as top coordinating forum
- World needs such a forum, akin to UNSC
- Replace G20 with Global Economic Council on a legitimate constitutional foundation
- GEC members must represent all countries
- Countries shd be grouped into constituencies, & seats represent constituencies
- Base it on reformed version of WB/IMF constituencies.
- GEC, WB, IMF to have same constituencies.
- What criteria for seats, votes? Population, GDP, ...?
- Authority? GEC to appoint heads of WB & IMF in open process
Membership of GEC

• Assume GEC has only 25 seats

• World divided into 4 regions: Americas; Europe; Africa; Asia. Each region to have 4 seats: total = 16

• Remaining 9 allocated to regions proportional to their share of world GDP → 3 each to Americas, Europe, Asia.
M’ship of GEC (ctd)

• Within region cities elect representative & alternate
• Total regional votes to be divided as follows:
  • 20% = ‘basic votes’ allocated to each ctry equally
  • 80% allocated according to ctry shares of regional GDP
• How is GDP calculated: MER vs. PPP?
Global Econ Council, WB, IMF


• Ditto, “Protecting power: how western states retain the dominant voice in the World Bank’s governance”, World Devt, forthcoming
World Bank: how did Dr Kim get to be president?

- From beginning in 1945 president has always been nominated by US govt & approved “unanimously” by Board of Executive Directors.
- In 2012 another American appointed, but not “unanimously”
- When position opened, 2 DC candidates: Ngozi & Ocampo, as well as Kim
WB (ctd)

- DC candidates far more qualified than Kim, in eyes of virtually everyone (eg Europeans, DCs)
- 2 days before Board vote G11 met for several hours. Unofficial ballot: 11 Ngozi, 0 Kim.
- At Board vote, only 3 EDs (from Africa) voted for Ngozi, all rest (22) for Kim.
- How come?
- (1) Europe supports US on WB in return for US support for Europe on IMF; (2) UST & State cut deals with DC governments to support Kim
WB ‘voice’ reforms 2008-10

• G20L said WB shd transfer 3 pcp of votes fr ACs to ‘DTCs’, raising DTC share from 44% to 47%
• Where did 3 pcp figure come from?
• G20L also said that ctry voting share shd reflect its ‘econ weight’ (so share of votes = share of world GDP)
• Outcome: (1) < ½ pcp transferred; (2)ACs continue to enjoy > 60% of votes; (3) share of votes/share of GDP ranges from 0.5 (China) to 4.0 (Saudi)
• So, West managed to protect its structural power
Chiang Mai Initiative
Multilateralization (CMIM)

- Foreign-exchange “swap” arrangement b/w ASEAN + 3, started 2000 in wake of E Asia crisis (= “IMF crisis”), to provide alternative to IMF rescue.
- But built-in “IMF link”: to borrow more than small amount, the ctry in crisis had first to apply to IMF for help (Stand-by Agreement).
- Why? CMI funds must come with tough conditions, to avoid “moral hazard”.
- Worry that China or Japan wld lend bilaterally to ctry in trouble “under the table”, with soft conditions.
- “IMF link” instituted to avoid this.
CMIM (ctd)

• Where? Singapore offered land & building.
• President? China, Jpn, ASEAN each put up candidate. Bitter stalemate. Eventually China won.
Conclusions on ‘rise of South’

• “Multipolarity”, “rise of East/South”: exaggerated.
• South growth remains synchronized with G7’s; no ‘decoupling’
• The rise (increasing share of world GDP) of South is mainly East (= Asia); & within Asia, mainly China
• To maintain catch-up growth DCs need to reduce dependence on foreign mkts & foreign capital, boost growth of domestic (regional) demand
Conclusions on influence of South in global govc

• DCs over 2000s – little leadership in global governance.
• Leadership remains with G7/OECD
• G20: 11 DCs sit at top table & watch
• World Bank ‘voice’ reforms (2008-2010) made only tiny redistribution towards DCs
• Why? G7 long practiced at coordinating. G77 + China (G77/C) little practice
• Big differences of interest b/w DCs (> b/w G7)
• But some DCs can block wider cooperation.
• Result: global govc deficit is growing. “G0”. Climate change?
• But slow changes are occurring: eg “G20-ization of WB & IMF”
Brazil in IOs

• Brazil’s Executive Directors at IMF & WB are widely seen as very talented, very influential.
• Both from Federal University of Rio