

The Rise of Emerging Economies & Its Impact

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Executive Summary

We are living through a major power shift: the making of a post-Western world. The days of Western dominance on the global stage are gone. China, India and Brazil are on track to become the largest economies of the world.

Emerging powers are the most successful developing countries with large populations and fast growing economies. Although they have been successful in reducing poverty, a large proportion of the world's poor still lives in China and India. Economic growth has come with high social and environmental costs. To sustain their economic growth, the emerging powers have engaged with low-income countries, mainly in Africa, through trade, investment and aid. Their economic engagement has been primarily driven by the need for energy, natural resources and export markets. It has led to a huge increase in South-South trade and more recently foreign direct investment. For example, China became the largest trading partner of Africa in 2009.

In fact, 2010 was the year of emerging economies. On April 15, the second summit of leaders from the BRIC countries (China, Brazil, Russia and India) was held in Brasilia, the Capital of Brazil; on November 12, at the G-20 Seoul Summit, the emerging great powers discussed together with European and American developed countries such global issues as climate change, trade and financial supervision, etc.; on December 6, at the UN Climate Conference in Cancún, the BASIC countries (Brazil, South Africa, India and China) voiced their stance on emission reductions for big emerging countries; and on December 23, China announced that South Africa had been accepted as a member of the BRIC countries. With their continuous rise and development over the years, the emerging economies begin to give "full" play to their respective strengths and international dynamism on the international arena in the post-crisis era. Economically, the gap between the emerging economies and the developed countries has been gradually narrowed; politically, as a new and strong force in world politics, the emerging economies are driving extensive and profound transformations of world economic and political patterns, as their potential powers on global issue have expanded.

The Rise of Emerging Economies

The rise of emerging economies is most conspicuously manifested in the economic sphere. These countries have been maintaining fast and steady economic development. From a global perspective, such all-around and sustained development enhanced their status in the world economy. Generally speaking, calculated by the purchasing power parity, the emerging economies account for nearly 50 percent of world GDP, a figure that is estimated to exceed 54 percent in 2013.¹ The BRIC countries and VISTA Countries (Vietnam, Indonesia, South Africa, Turkey and Argentina) are the most typical examples. By November 2010, the proportion of the total GDP of these nine countries to that of the whole world had increased to 18.6 percent from 11 percent in 2000.² This is in sharp contrast to that of the G7 countries (the United States, Japan, the UK, France, Germany, Italy and Canada), whose proportion of world GDP fell from 77 percent to less than 50 percent.

High-speed development means a strong pulling force. Since the eruption of the global financial crisis in 2008, emerging economies have been important engines driving the recovery of the world economy, making significant contributions to the global economic growth. Between 2008 and 2009, their contribution to world economic growth increased from 78 to 88 percent, a share that would exceed 92 percent in 2010.³ Hard hit by the crisis, the Western countries regarded the first emerging economies to recover as a life-saving straw. Take Germany, the largest economy in Europe, for example; in 2010, it exhibited the highest growth rate of European countries, between 2 and 3 percent, mainly because of the recovery of the auto, machinery and other exporting industries, of which nearly 50 percent was exported to China, India and other emerging economies; China, in particular, surpassed the United States as the largest export market for German

¹ Based on International Monetary Fund, *World Economic Outlook (WEO): Slowing Growth, Rising Risks* (Washington, D.C.: International Monetary Fund, 2011).

² Justin Yifu Lin, "BRIC Spillovers helped Low Income Countries Withstand Crisis," [blogs.worldbank.org](http://blogs.worldbank.org/developmenttalk/bric-spillovers-helped-low-income-countries-withstand-crisis), February 13, 2012, <http://blogs.worldbank.org/developmenttalk/bric-spillovers-helped-low-income-countries-withstand-crisis> (accessed February 27, 2012).

³ Based on International Monetary Fund, "Data and Statistics," <http://www.imf.org/external/data.htm> (accessed February 27, 2012).

machinery. More importantly, because of the large German and French production outsourcing, the emerging economies with their large and robust domestic markets also indirectly helped the economic recovery of Poland, the Czech Republic, Slovakia and other European countries.

The substantial leap in their international competitiveness is another important indicator for the rise of emerging economies. The World Economic Forum's Global Competitiveness Rankings demonstrated that the rankings of China, Russia, India and Indonesia have been steadily advancing since 2001. Of the Fortune list of 500 Global Enterprises published in 2010, the number of companies from the BRIC countries increased from 16 in 2000 to 67 in 2010. The number of Chinese companies ranked No. 3, surpassed only by the United States and Japan. Between 2003 and 2008, the emerging economies completed 844 mergers and acquisitions (M&A) in Western Europe, with total investments amounting to 120 billion euro; the annual rate of growth of in M&A and direct investments exceeded 10 percent. In 2010, the emerging economies with robust recoveries achieved record-high overseas M&A amounting to US\$557.2 billion, which was a 58.4 percent jump compared to 2009, and for the first time exceeded 25 percent of the total world M&A, accounting for 26.7 percent.⁴ In addition, the industrial strength of the emerging economies has constantly improved, as exemplified by the auto production and distribution industries. In contrast to the European and U.S. giants, which were in difficulty or faced bankruptcy because of the financial crisis, car sales in China surpassed those in the United States, making China No.1 in the world both in 2009 and 2010, and the sales of domestically produced Chinese cars accounted for 50 percent; the TATA Group of India acquired the Jaguar and Land Rover brands of Britain; Geely Auto of China acquired the Volvo brand of Ford in 2010, and Shanghai Automotive acquired the British MG Rover.

The emerging economies have not been much affected by the global financial crisis, compared to the Western world. They have maintained high levels of economic growth, and China, in particular, has abundant capital to invest domestically and in other countries. The global financial crisis has quickened the shift of economic power from the West to the emerging economies.

Emerging economies are the leading economies of the future, according to the now-famous 2003 Goldman Sachs report on the BRIC's. They are

⁴ Lin, "BRIC Spillovers helped Low Income Countries Withstand Crisis."

therefore increasingly important in the management of globalization and international public goods, such as climate, biodiversity and security. This surfaces in international forums like the World Trade Organization, the G-20 and the UN climate change negotiations.

The emerging economies are in no way a coherent group of countries that acts in a coordinated way. On the contrary, there are marked differences and tensions between China, India, Brazil and South Africa. They are grouped together because of their growing influence on world affairs and on Africa in particular.

According to predictions by the World Bank and the International Monetary Fund, the emerging economies are expected to achieve an eight percent or higher economic growth rate, while the debt-laden developed countries are bound to be below two percent.⁵ In other words, the shift of power between these two groups of countries will continue or even quicken, and the worldwide re-balancing of economic strength and wealth will be unavoidable.

⁵ Based on International Monetary Fund, "Regional Economic Outlook Reports" (October 2011), <http://www.imf.org/external/pubs/ft/reo/reorepts.aspx> (accessed February 27, 2012); and The World Bank, "Global Economic Prospects—June 2011," <http://web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/GEPEXT/0,,contentMDK:22804791~pagePK:51087946~piPK:51087916~theSitePK:538110,00.html> (accessed February 27, 2012).

The Cooperation between Emerging Economies

The collective rise can be said to be one of the most prominent features of emerging economies. Unity, cooperation and mutual communication are the mainstay in the whole process when this group of countries enters the international arena. This feature can be attributed to three reasons: in the past, most developing countries acquired a strong sense of similar identity and historical struggle; at present, their uneven development and different development patterns, with differing emphases provide the conditions for cooperation, such as the abundant labor and vast domestic markets of China and India, the rich energy resources of Saudi Arabia and Russia, the advanced tourism industries of the Philippines and Thailand, etc.; in the future, emerging economies are bound to be faced with delays and tactics intended to divide or even contain from Western developed countries while they are quickening the multipolarization process; therefore, the demand for cooperation to safeguard their common interests is probably their best choice. Presently, the cooperation between emerging economies is mainly embodied at the global and local levels, and initial successes have been achieved at these two levels of cooperation.

On the one hand, a series of global cooperation mechanisms between emerging economies has taken shape and displayed their effectiveness, especially those between the emerging powers. The benchmarking mechanism of BRIC countries has been gradually standardized. These four countries, with 42 percent of the world's population, 15 percent of total world economic output, 13 percent of the total international volume and 50 percent of the driving forces of the world economy. Their dialogue coordination channels, such as summits, meetings of foreign ministers, senior foreign affairs representatives and financial ministers enable them to strengthen their voices on global issues such as reforms of the international financial system, climate change, energy production, and so on. With the joining of South Africa, the five countries will have wider room for cooperation. The Heiligendamm Process – also known as “the Five Developing Countries,” referring to China, Brazil, India, Mexico and South Africa – which was born in 2007, has gradually evolved into a mechanism paralleling the G-8, and has become an important platform to coordinate policies of the emerging

economies and promote balanced development between the South and the North. In particular, this process has been indispensable for the emerging economies to propose, interpret and uphold their stances on issues such as international economic and financial reforms, the Doha Round Talks, sustainable development, etc. The BASIC countries (China, Brazil, India and South Africa) have become the backbone for the struggle between emerging economies, or even the whole developing world, and the developed countries in international emissions reduction. By communicating and coordinating internally and speaking “with one voice” externally, the four countries made a strong, steady and active voice heard on the United Nations Copenhagen and Cancún conferences, which manifested the significant and constructive role of emerging countries in coping with climate changes. In addition, trilateral mechanisms, such as the China-India-Russia Strategic Dialogues, the India-Brazil-South Africa Dialogue Forum, which covered such issues as global politics, economy, security, etc., have been continuously and steadily advancing, and have become significant forces for promoting coordination and cooperation between emerging economies and displaying their influence.

On the other hand, various regional cooperation mechanisms, where the emerging economies are major players, have become a new engine to boost regional integration. Indonesia, Malaysia, Thailand, Singapore, Vietnam and other countries have been actively engaged in ASEAN’s organization and mechanism construction, and the steady promotion of the integration process. From the 2008 ASEAN Charter to the ASEAN 2009-2015 Roadmap Declaration and the Political and Security Community Blueprint signed in March 2009, to the Overall Planning of ASEAN Interconnection, the accomplishment of the ASEAN Community speaking with one voice in 2015 has become an irresistible trend. Meanwhile, the China-ASEAN Free Trade Area (CAFTA) was inaugurated in 2010. The largest free trade and economic area between developing countries, which boasts 1.9 billion consumers and a total GDP of US\$6000 billion, together with the Asia-Pacific economic circle indirectly fueled by it, has become the No. 1 growth point amidst the global financial crisis.⁶ The Southeast Asia region has also become the geopolitical focus for cooperation between emerging economies. Thanks to the vigorous

⁶ Based on International Monetary Fund, *IMF Annual Report 2011: Pursuing Equitable and Balanced Growth* (Washington, D.C.: International Monetary Fund, 2011).

efforts of Brazil, Argentina and Venezuela and other countries, the Mercosur Parliament (South Common Market Parliament) and the Bank of the South were successively established in South America, and the Energy Agreement of South American Countries and the Organization of South American Natural Gas Producing and Exporting Countries are also under discussion and about to be signed, which mark the continuous expansion and deepening of cooperation in Latin America. Besides, in the Middle East, Saudi Arabia is actively pursuing further development of the Cooperation Council for the Arab States of the Gulf (CCASG); Saudi Arabia, Kuwait, Qatar and Bahrain signed a Monetary Union Agreement in June 2009, put forward a proposal for establishing a customs union mechanism at the end of 2010, and are planning to establish a monetary union and single currency in 2013.⁷

Objectively speaking, the cooperation between the emerging economies is still at an initial stage with room for further improvement and extension. The cooperation between these countries will be affected to different degrees of such problems as trade frictions appearing in the process of cooperation resulting from uniform economic structures, the intensification of competition revolving around market and energy resources, and so on. However, it cannot be denied that there is still enough impetus for continued and strengthened cooperation between the emerging economies. There are still conspicuous complementarities in labor forces, markets, energy resources, technology, etc. A solid foundation for cooperation has resulted from their consultations and negotiations concerning regional and global issues. The financial crisis forced the developed countries to return to protectionism and the European and American developed countries kept blocking foreign competition and imports in order to protect their domestic industries, which drove the emerging economies to strengthen their trade cooperation and unity in order to pull through the crisis. It becomes more necessary for the emerging economies to ensure their development and security through cooperation as a result of the adjustment of foreign policies pursued by European and American developed countries as well as the prominence of the uncertain international and regional situation, etc. All of these factors are decisive if cooperation between emerging economies is to keep to the upward trend.

⁷ Based on International Monetary Fund, "Regional Economic Outlook Reports."

The Strategic Influence of Emerging Economies

“The rise of the east and decline of the west” as seen in the world power map might be one of the most significant features of international politics of recent decades. Catalyzed by the international financial crisis, this trend has accelerated in an unprecedented fashion. With the enhancement of their soft and hard power, the emerging economies present challenges to the West in the international system it has hitherto dominated, as well as to its monopoly over international discourse and control of the overall international situation.

First, the rise of the emerging economies prompts a transformation and adjustment of the current international systems and mechanisms. Assembled six times and replacing the G-8 as the main platform for global governance and international cooperation, the importance of the G-20 summits has grown. Under such a new multilateral framework, the emerging economies have been playing a more vigorous role than the developed countries in such respects as leading the global recovery, boosting the reform of world order, resolving hot-spot issues, etc. This has not only won the active recognition of the international community but also demonstrated the strengths and wishes of the emerging economies to promote the democratization of international relations. Having been through many setbacks, the reforms of the World Bank and the International Monetary Fund saw some breakthroughs in 2010. The World Bank allowed the developed countries to transfer 3.13 percent of their voting power to the emerging economies, which raised the voting power of developing countries to 47.19 percent, while the International Monetary Fund decided that it would transfer more than 6 percent of its shares to the underrepresented countries, including the emerging economies. As a result, the BRIC countries were collectively raised to be one of the “ten big shareholders” and the total shares held by emerging economies increased to 42.29 percent. In the reform of the UN Security Council, there is a consensus that the seats of the large emerging economies should be increased. In a new round of intergovernmental negotiations, three of the BRIC countries, India, Brazil and South Africa, with increasing strength and status, will have a firmer stance to becoming permanent members of the UN

Security Council. It is a prospect that is worthy of our expectations. From the establishment of its constitution and systems to the opening of the first national human rights review, the UN Human Rights Council has radically reversed the situation where the West uniformly criticized the non-Western countries. In the votes on human rights issues by the UN General Assembly, those for the European and American developed countries were reduced from 70 percent in 1990s to less than 35 percent in 2010, which was in sharp contrast to the 69 percent supporting China and Russia.⁸

Second, the rise of the emerging economies presents a challenge to the dominance in the world economy of the Western developed countries. On the one hand, under the constant impact of the rise of the emerging economies, it became increasingly evident that the proportion of Western developed countries in the global economy has shrunk considerably, and the tendency of them having an absolute advantage changed into a relative advantage. On the other hand, in sharp contrast to the increasing recognition by all sides of the development models of the emerging economies, the free market economy models of the west, especially those of the UK and U.S., have been widely criticized on account of the crisis they triggered. Their long-term image and moral standing as advocates and drivers of free trade and globalization have been considerably harmed by the recent rise of protectionism and anti-globalization forces in these countries. If their shrinking proportion of global GDP reduced the “hard” dominance of Western developed countries, then the loss of their advantages in development models will be a significant mark of their declining “soft” dominance.

The best example is the diminishing importance of the G-8. The G-8 summit is nicknamed the “Global Governance Council.” Both developed and less developed countries meet to discuss common issues. The universality of representatives at the G-8 summit illustrates that G-8 countries no longer dominate international topics and agendas. The emerging powers have become indispensable to the G-8 summit in helping to achieve efficient and fruitful solutions. Economically, G-8 members are all industrialized countries with high GDP and GDP per capita and more vetoes in the International Monetary Fund. They set the procedures and agendas for most international affairs with the help of international regimes that have been in place since the end of World War II. They control the circulation and

⁸ Lin, “BRIC Spillovers helped Low Income Countries Withstand Crisis.”

ultimate fortune of most international financial, economical and security mechanisms.

However, with the development and expansion of economic globalization and the pragmatic application of new technologies, the economies of emerging powers have developed so rapidly that some economic indexes of emerging powers have already surpassed some G-8 members. G-8 members are slowly losing their traditional advantages. The political influence of the emerging powers is also growing along with their economies. The G-8 is losing its charm and power in the world. In recent years, member countries have been seeking to consolidate their influence in international affairs by providing assistance to the poor and underdeveloped countries. The effects have been limited, because while developed countries have been reluctant to supply strategic resources, they have been quick to impose political pressures on the domestic affairs of recipient countries. When the financial and economic situations of these developed countries are in trouble, they are less willing to commit themselves. Thus, the G-8 members are seeking to transmit or share part of their international responsibilities with the emerging powers. During the current financial and economic crisis, the G-8 countries have suffered so much that they are not strong enough to govern international affairs. At the same time, some emerging powers are exhibiting more and more influence in international affairs.

After the G-20 summit in London in April 2009, the emerging powers were pushing for innovations in the World Bank and the International Monetary Fund. A change in voting power in the IMF has been under way, and the United States' unitary veto right has been canceled and the voting power of the emerging powers has been increased correspondingly. While there are still some countries that are relatively more powerful, international power is much more decentralized. The phenomenon of polarization is reduced when most of the great powers have to appeal to multilateral cooperation in order to solve intractable international issues. The G-8 countries will lose their stimulus and impetus to continue as the leading powers of the world if they do not cooperate with the emerging powers in managing international affairs. They must find a proper way to integrate the emerging powers at the proper time when dealing with specific international issues. After all, the United Nations – not the G-8 summit – is the best platform to talk about international affairs when the representing parties really commit

to resolving international issues and keep stability and prosperity in the world.

Third, the rise of emerging economies has changed the situation where the Western countries were unchallenged in some regional affairs. Over the years, because of the frequent provocations and interference by European and American developed countries in the internal affairs of other countries on strategic issues, and their pursuit of double standards and unilateralism, many issues became difficult to resolve, irresolvable or even intensified. However, the current regional cooperation platform with the emerging economies as major engines and their increasingly vigorous driving power have to a large extent become a defense that can contain, weaken and avoid such situations. In South America, with the deepening of the integration process of the South American Union of Nations (UNASUR), the increase of the “left-wing” regimes and the reduction in the number of pro-U.S. governments, the influence of Brazil, Argentina, Mexico and other countries has been increasing, and Venezuela has even replaced the United States as the largest donor of foreign aid in the Caribbean and Central America. In Central Asia, the Shanghai Cooperation Organization centered on China and Russia has deepened its internal military cooperation since its foundation and has safeguarded the regional situations and political stability, and increasingly expanded its potential power on issues concerning Afghanistan and Iran that so far have been dominated by the West. In South Asia, the South Asian Association for Regional Cooperation (SAARC) with India and Pakistan as major actors has deepened cooperation among members centering on issues such as free trade, food safety, and anti-terrorism, etc., and also increased coordination and communication between them. In addition, initiated by Russia, the Conference of Caspian Sea Littoral States Leaders was held and joint statements were adopted concerning issues such as the legal status of the Caspian Sea and energy exploitation. So on and so forth. Despite the fact that the Western countries may remain influential and dominant in some regional affairs and hot-spot issues in future, the strengthening of the divergent effects and strategic influence of the emerging economies, especially the big emerging powers, in their respective regional affairs will be an irreversible trend.

About the Author

Liu Yu is a graduate of Wuhan University. Specializing in international relations, he is an Assistant Professor at the Institute of World Politics Studies, China Institutes of Contemporary International Relations. His research focuses on non-governmental organizations and international security. His publications include *Overview of Foreign NGOs, An Evaluation of International Strategy and Security Situation, 2007-2008*, and *An Evaluation of the International Strategy and Security Situation, 2008-2009*, as well as "The Transformation of International Pattern," "The Emerging Powers and Their International Influence," and other articles on international relations. He was a guest researcher at ISDP from September 15 to November 13, 2011.