Losing grasp over the global financial system: the retreat of the North vs. the advance of the South

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Abstract
During the past decade the world has witnessed an unprecedented rise of emerging powers across the developing world. This development, accelerated by the recent global financial crisis, has led to a gradual increase of emerging powers involvement in international governance structures. Unlike the past, when the economic rise of new players such as Japan and the European Union (EU) somewhat challenged the American economic supremacy but did not alter much in the global landscape, the new wave of challengers seem to have the capabilities not only to change the balance within global governance structures but can also potentially shift the very structures themselves. To this end, emerging powers seem to increase their pressure over reform processes through their coordination as well as the institutionalization of alternatives to existing global and regional governance structures that fit more to their understanding of the world.

Introduction
During the past decade a growing debate over the emergence of new powers in the global scene has gradually evolved. Based on the steady increase of (mainly economic) power of various developing states, new terms, such as ‘emerging powers’ or ‘new donors’, are now being used more and more often, describing a new set of states that have gained in significance and have somewhat escaped the boundaries of their origins: while being ‘developing’ they form part of global governance structures that had been until recently exclusive clubs of developed states. Most of such ‘emerging’ powers are now being welcomed in international fora and institutions, they are consulted by developed states on several matters while their capitals are visited by leaders from around the world as well as international institutions’ representatives. This development has brought to light various theoretical and practical questions on global order: are we witnessing a change in world leadership? Are we departing from a much unipolar world order to a multipolar one? Is the US able to withhold its leadership position as they had achieved in the past in the face of Japan’s and EU’s rise? Are emerging powers aiming at challenging contemporary status quo, established world institutions and even international norms?, to name a few.

Furthermore, the recent global financial crisis seems to have accelerated the pace of new powers emergence as it depicted the inefficiency of old leaders and structures to bring an end to the global economic turbulence that followed the much collapse of the US real estate market and especially the bankruptcy of Lehman Brothers in September 2008. This development was also based on the fact that most

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emerging powers have seen their importance in global order rise due to their excellent economic progress which allowed them to stockpile valuable foreign exchange reserves and capital.

This paper attempts to shed some light into this new development and tentatively provide a forecast on how this power transition experiment might evolve in the near future. The main argument is that unlike the past, when the economic rise of new players such as Japan and the EU somewhat challenged the American economic supremacy but did not alter much in the global landscape, the new wave of challengers seems to have the capabilities not only to change the balance within global governance structures but also potentially shift the very structures themselves.

As argued by Abram Organski in his book titled World Politics (1958), which laid the foundations of the Power Transition Theory, a redistribution of power among different countries in the world creates the conditions for the destabilization of any existing system and might lead to interstate tensions and possible conflict. Roland Tammen (2000) also supported the idea that the 21st century is expected to see major changes in world politics, the most significant of which likely being the increase of power of emerging nations such as China (Lemkea & Lemkeb 2003). But is it just a power transition between world leaders, i.e. China and the US, or are we witnessing a power transition between the developed and the developing world? And most importantly, is this perceived transfer of power leading to changes of the global governance structures or is this shift going to result to just the greater inclusion of new nations within the existing global power structure? In essence, answers to such questions are but the outcomes of a multifactor analysis exercise.

A changing environment

Since the full development of the 2007-8 global financial crisis it became apparent that the so-called emerging powers have become too important to be ignored. In effect, global problems have always required for global solutions; but when focusing on the financial sector, global crises have been mainly dealt by the Triad (over for example G-7 meetings) or the Bretton Woods international institutions which were again mainly controlled by G-7 powers and above all the US. For instance, during most regional and global crises in the 1990s solutions would come from already established international financial institutions which are mainly controlled by developed economies (see for example Boughton 2000, Sachs et al 1996, Sachs 1998, Baig and Goldfajn 2000). Even though in some cases a solution outside these structures had been proposed, e.g. the call of Malaysia’s Prime Minister Mahathir for reaching an Asian answer to the 1997 Asian Financial Crisis, the indisputable world leader at that time, i.e. the US, had pushed for the world accepting International Monetary Fund’s (IMF) and World Bank’s prescriptions (Breslin and Higgot 2003). Hence, a proposed leading role of the capital-abundant Japan in an Asian solution to the crisis was rejected and Southeast Asian countries were obliged to accept the rescue loans from the IMF which were followed by specific conditionalities based on the ‘Washington Consensus’ principles (De Brouwer 2004).

On the other hand, the Russian crisis of 1998, the 2001 Argentinian default as well as the economic recession during 2000-2003 which followed the dot.com-bubble burst and which mainly affected the western world, did not require for significant coordination of economic policies worldwide. Internal policies in the case of Russia, an intervention by the IMF in South America and a few G-7 meetings were enough to stabilize the economies under focus. Nevertheless, a decade after the Asian Financial
Crisis and just a few years after the 2000-2003 western world economic recession a new ‘economic accident’ will reveal a very different global economic scene.

The recent global financial crisis has highlighted that global shifts in contemporary distribution of (economic) power are rendering old structures and methods of handling issues and giving solutions rather inefficient. The unilateral economic policies of US and European institutions at first as well as the North-only membership meetings for combating the financial turbulence created by the collapse of the US real estate market and the global spread of the now-famous CDOs were proven inefficient. The magnitude of the crisis as well as the level of global economic interdependence required for global solutions in the sense that coordination between all major economic centers was needed. Hence, the usual meetings of developed countries needed now to be followed by G-20 meetings in order to make sense and be effective (see for example Zaring 2009, Petropoulos 2013).

In fact, this necessity was partly discussed during the late 1990s when the world had witnessed a series of regional crises in developing parts of the world, namely in Mexico (1994), East Asia (1997), Russia (1998), Brazil (1998-9) and Argentina (2000-1). To this end, developed countries such as the US had called during as early as 1999 for the formulation of a G-20 group of states that would increase participation from the developing world (Kirton 2005). Such a group was formally established at the G-7 Finance Ministers’ meeting in September 1999 but it became more active since the “2008 G-20 Washington Summit on Financial Markets and the World Economy”.

Besides the G-20 initiative, G8 governments had also acted towards expanding the number of participants on these meetings through inviting a limited number of countries from the developing part of the world. Thus, in July 2000’s meeting South Africa joined G8 discussions while China, Brazil, Mexico and India were included in 2003. The ‘G8+5’ would become officially viable in 2005’s G8 meeting. A key fact: the five representatives from the developing world were not granted full-membership but were official guests of the G8 meetings in the sense that they were taking part in the second part of discussions of the Group (Fues 2007; Blair 2007).

Nevertheless, the 2007-8 global financial crisis and the inability of developed nations to handle its consequences as well as the overall ineffectiveness of the North in bringing tangible results through its unilateral actions and policies, led to the 2008 G-20 Washington Summit on Financial Markets and the World Economy and since then the institutionalization of G-20 meetings (Declaration of the Summit on Financial Markets and the World Economy 2008). Such meetings are now conducted annually, or even biannually, highlighting the importance of emerging developing countries in global (economic) governance.

The past challengers

It is not the first time that a country or set of countries are challenging the global financial status quo. Both the EU and Japan had at one period been labeled as ‘challengers’ of US economic supremacy without though actually succeeding in getting in charge of the global economy. In the case of the EU, besides some rare clashes with the US – usually on secondary issues, these two great poles of the global economy have been cooperating closely. The most apparent example of the enhanced coordination between them is the fact that leadership on the two most important International Financial Institutions (IFIs), the World Bank and the IMF, is reserved for candidates suggested by the US and the EU respectively. This is based on the very fact that the
current global economic governance structure has been structured under mutually agreed terms.

On the other hand, the rise of Japan during the 1970s and 1980s had caused more concern over American think tanks at first and later on over Washington, even creating a new term, that of ‘Japan-bashing’ (see for example McCormack 1994). A reconstructed Japan had succeeded to gradually move from having a GDP equal to 8% of the American one during 1960, to 20% in 1970, 40% in 1980 and 54% in 1990 (IMF data, author’s analysis). Based on enhanced competitiveness and a well-coordinated economy in which the public and private sector were closely interconnected Japan gained ground. While protecting its internal market, Japan was promoting its products around the world leading to huge trade surpluses especially when one would focus on bilateral trade with the US. Hence, an anti-Japanese hysteria gradually evolved with the US taking measures to defend itself against this advance: Japan was convinced to agree on voluntary exports constraints while US Congress called for a reevaluation of the yen (Destler 1993; Rosendorff 1996). The 1985 Plaza Accord partly allowed Japanese companies to initially reinforce their purchases of assets abroad (another alarming issue in the US) but then led to a real estate bubble the burst of which brought the Japanese economy into significant financial turbulence and a ‘lost decade’ (Hamada and Okada 2009).

In the very end, these ‘poles’ of the global economic structure have merged to constitute the ‘North’ while the US kept more or less its prominent position. Throughout the 1990s the global economy would still be rather tied to the US economy’s growth rates and more importantly Americans’ spending, the dollar would continue to constitute the de facto global currency while Washington would still much control the global economic governance structures and institutions at times in consultation with the other poles of the ‘North’, i.e. Japan and Europe (see for example Akin and Kose 2007).

The new challengers

Current events seem to underline a rather different situation. This paper argues that in contrast to previous ‘challengers’, current emerging powers can lead to significant global shifts, initially focused on the financial sector, due to the existing design of the contemporary international environment but most of all due to the special characteristics of the new ‘challengers’.

The need of introducing new players for combating the recent global financial crisis can be understood as a clear sign of an evolving global economic structure of a more multipolar nature. Unlike the past when Japan was ‘challenging’ the US hegemonic position in the global economy, developed economies have actually invited emerging powers, the potential new ‘challengers’, to join them into fora which were granted decision making powers over the global economic environment (The Economist 2009). Hence, this invitation can be recorded as a testament by the North that emerging powers are rather important (Petropoulos 2013).

In addition, unlike the past, it is not just one challenger at a time arising as for example the emergence of China has been accompanied by the reinforcement of Brazil’s, India’s and other developing countries’ position within the global financial system. A quick observation of the top 20 economies each year will reveal this new trend. More specifically, in 1990 just five developing countries (including Russia) were included in top 20 economies with just two making to the top 10 (Russia-9th and Brazil-
21 years later, in 2011, eight developing countries are placed in the top-20 index while four made it to the top-10 (IMF data, author’s analysis).

The increased contemporary importance of emerging powers is also highlighted by another set of data, the percentage of global GDP covered by such economies included in the top-20 rankings. In 1960 the top-20 list included eight developing countries similarly to 2011. But contrary to 2011, those eight economies constituted of just 12% of global GDP. In 1980, top-20 developing economies were responsible for less than 9% in comparison to top-20 developed economies which had generated 76% of global GDP. When someone looks at the 2011 data the picture is significantly different: the eight developing economies ranked within the top-20 list contributed more than 24% of global GDP while economies belonging to the ‘North’ group were responsible for 56%. If economic growth trends are taken into consideration it can be safely forecasted that developing countries' share of global GDP will rise disproportionally to the share of developed ones, thus, shifting current balances of economic power (IMF data, author’s analysis).

Furthermore, this new reality encloses another significant fact: emerging powers share common features and to some extent common goals. They all aim at a better distribution of power within the global economic and political system while they all have negative or at best tentative feelings, mostly due to historical national or regional experiences, towards main global financial governance structures such as the World Bank and the IMF. Unlike, for example, the rise of Europe after the 1960s, emerging powers were not included in the core group that formulated the current global governance structures. For instance, emerging powers’ voting rights within the IMF had been conditioned by their ability to lend money to this institution during the 1950s while their presence as permanent (and most importantly veto empowered) members in the UN’s Security Council has been limited to Beijing (and if one can also include Russia to Moscow). They are now making their presence felt through requests for greater participation in all post World War II global institutions which currently represent more or less the 1945’s state of affairs (see for example BRICS Sanya Declaration 2011; Truman 2006; Schwartzberg 2004).

The most prominent, probably, point for change is the reform of the United Nations’ Security Council. As long as the early 1990s various calls for an adjustment of the Security Council have been made from many countries around the world. For example, the provision of permanent seats to additional countries which now play a significant role in the world scene, such as India, Brazil or Germany or the institutionalization of a new type of semi-permanent seats within the Council are some of the reforms proposed (Schwartzberg 2004). This process, which requires the positive vote of the two thirds of the UN’s members (including the ones of the veto empowered members of the Security Council) to be approved, is still pending with no clear indication on whether and when it could be completed. Nevertheless, the calls from emerging powers for the need of the reform has gained strength while they are also reflected in the words of the former Secretary General Kofi Annan in his statement to the General Assembly calling for a reformed Security Council towards becoming “more broadly representative of the international community as a whole” (The Secretary-General Statement, 21 March 2005). More recently, discussions on UN Security Council Reform highlighted the fact that the reform process, being debated for two decades now, is long overdue and that it should take into account the 21st century realities (UN General Assembly 2011).

Unlike the reform of the Security Council, emerging powers have become more persistent, and somewhat more successful, in bringing changes to those international institutions that deal with clearly economic issues. Indeed, the rise of new economic
powers has led to increased calls for reforming both the World Bank and the IMF while both calls have been addressed to some degree.

In the case of the World Bank, for example, a two-phase process of altering the distributed voting rights to its members had commenced in 2008 under the encouragement of the Monterrey Consensus on Financing for Development which clearly urged IFIs “to continue to enhance participation of all developing countries and countries with economies in transition in their decision-making, and thereby to strengthen the international dialogue and the work of those institutions as they address the development needs and concerns of these countries” (Monterrey Consensus 2002: 20). The outcome of this two-phase reform has been the gradual increase of voting rights, and thus the importance in the decision making process, of the developing countries from 42.6% to 47.19% of the total votes while developed economies percentage decreased from 57.4% to 52.81% (IBRD 2010 Voting Power Realignment).

An even more impressive outcome can be traced in the reform process of the IMF. Again, a two-phase process was initiated in 2008 with the decisions reached in 2010 yet to be fully implemented. Following the “2008 Amendment on Voice and Participation”, country-specific Executive Directors have been increased to 8, one of which comes from China. Furthermore, based on the “14th General Review of Quotas”, a shift of more than 6 percent of quota shares from over-represented to under-represented member countries as well as a shift of more than 6 percent of quota shares to dynamic emerging market and developing countries has been agreed (IMF 2013a). In addition, China will become the 3rd largest member country while Brazil, China, India, and Russia are placed among the 10 largest shareholders of the IMF. Interestingly, this realignment of voting rights is going to decrease G7 countries from 45.1% to 41.2% of total votes while increasing in the same time emerging economies' total rights from 39.4% to 44.7%. Hence, the latter will now have more voting rights than the G7 advanced economies (IMF 2010b).

Why this development? The Monterrey Consensus speaks about further engaging developing countries in the international organizations' decision making processes in order to strengthen...the work of those institutions as they address the development needs and concerns of these countries (Monterrey Consensus 2002: 20). In other words, the Consensus calls for greater participation of developing countries as a way to lead to better results of IFIs’ policies towards those countries’ issues. Although none would disagree that input from the recipients of international aid can be overall beneficial, the reforms presented above have focused more on increasing the voting rights, i.e. the influence on the IFIs' decision making, of developing countries that are in no or small need for these international organizations' interventions. States such as China, Brazil, Russia and, to a lesser extent, India are not ranked among the most prominent recipients of World Bank's or IMF's assistance.

Hence, the reason of this shift in both international organizations cannot be traced solely to the logic of the Monterrey Consensus’ relevant statement but can be attributed to three additional reasons:

a. The reform of voting rights in both the World Bank and the IMF has been based on their need for additional funding. As emerging powers have been gradually raising their levels of foreign exchange reserves as well as experiencing positive budget balances, they constitute a now important source of funding. As one part of voting rights given to each country is defined by the level of its funding to the organization under focus, it is logical to witness an increase of voting rights of the wealthiest developing countries. In this sense, the reform has been the initiative of the international organizations themselves due to their need for additional funds.
b. As emerging powers have gained importance within the international environment, and the economic one in particular, it was normal for this development to be portrayed in the voting rights distribution of the World Bank and the IMF. As one part of voting rights given to each country is defined by their GDP relation to the global GDP, it is logical to witness an increase of voting rights of the developing countries that have achieved long periods of high economic growth rates. Thus, the reform has been the outcome of the standard review process of voting rights within these organizations. As this is an involuntary process for developed economies which are seeing their control over IFIs being decreased it is also logical to expect delays from their side in forwarding reforms. Indeed, as of June 3, 2013, the reform process still needed 10% of total voting power to be entered into force with the US being the major absent from the countries already having approved the reforms (IMF 2013b).

c. The spirit of the Monterrey Consensus’ relevant statement is served through the enhanced participation in the World Bank’s and the IMF’s decision making processes of some, but not all, developing countries which act as representatives of the developing part of the world. Thus, the reforms are transforming these international organizations from mainly following developed countries ideas on aid and development to infusing the perspective of developing ones in the policies and programs formulated. In this sense, the international organizations accept the argument of many emerging powers that they constitute representatives of the developing world and as such they know better on how to serve the interests of developing countries and how to make international organizations’ interventions in developing economies achieve better results.

The actual reasons of current developments can be found of course somewhere in-between. The 2008 reforms on both the World Bank and the IMF can be explained as a long overdue readjustment of the contemporary global environment’s reality, which was achieved partly due to the pressure put by emerging powers themselves. Their demand for a greater voice and participation in the global governance structure has gained momentum since the early 2000s with the recent global financial crisis being a significant milestone. The 2008 recorded shifts of power distribution within the IFIs have been the outcome of the calls of emerging powers for a more balanced representation of current state of affairs, a reality also highlighted by the inability of developed economies to control the recent financial crisis. In addition, the second phase of reforms during 2010 was greatly enforced by the increased need of such organizations for additional funding. As most developed economies had already spent significant amounts of money to rescue packages their already moderate financial capabilities were severely constrained. Hence, the bill of additional funding required by the IMF as well as the World Bank had to be split among the countries with big wallets, i.e. developed as well as emerging economies.

Indeed, the second phase of IMF’s reform was based on the doubling of quotas from approximately Special Drawing Rights (SDR) 238.5 billion to approximately SDR 477 billion, meaning an increase of funding of more than US$700 billion at current exchange rates (IMF 2010b). Such needs could not have been covered by developed economies but required for an increased participation of emerging ones which on their turn demanded their more balanced representation on the decision making processes of both organizations. For example, Brazil had signed an agreement to purchase IMF notes worth of US$10 billion while during 2011 in her visit in Brazilia, IMF’s Managing Director Christine Lagarde also discussed the possibility of Brazil further increasing its funding towards the Fund (IMF 2010a and 2011b; Reuters 2012).
Overall, the changes in the World Bank and the IMF highlight an unprecedented reality: a new group of states are emerging in the global financial system in the same time that developed economies find difficulties in managing global issues enhanced by economic interdependence on their own. The new group of emerging powers has much gained from the international economic system in which they now demand a greater voice based on their enhanced economic position, both in real terms as well as relatively to other powers. Interestingly, using IMF data to formulate a list of top 20 countries by foreign exchange reserves it is revealed that 13 places are taken by emerging ones, with China being at the top with more than US$3 trillion (IMF 2012 data, author’s calculations).

Furthermore, a lot of emerging countries have been experiencing low external debt levels. India and Brazil, for example, have among the highest levels of general government gross external debt as a percentage of their GDP (66.4% and 64.9% respectively) which is rather low compared to the average 131.5% of G7 economies. China’s (irrespectively of the criticism over provided data accuracy) and Indonesia’s percentage lies in the area of 25% while Russia’s external debt reached during 2011 the very low 11.7%. Finally, it should be noted that for most emerging economies external debt has a downward trend while this cannot be argued for most developed economies (OECD 2011 data, author’s calculations).

The aforementioned course is expected to continue at least until the medium term. Forecasts of GDP growth rates, external debt and exports trends stipulate that emerging powers’ relative position in the global environment as well as their capabilities to infuse funds to international organizations are expected to be enhanced. According to IMF forecasts GDP growth rates of BRICS countries will stay on average between 7-8% until at least 2018 while ‘Other Emerging Market and Developing Economies’ growth rates will fluctuate between 4.5-5%. On the other hand, Euro area will experience growth of around 1.5%, Japan between 1-1.5% and only the US economy is expected to achieve growth rates between 3-4%. Concerning government debt trends, IMF forecasts portray a clear downward trend in most countries across the world. Nevertheless, G7 countries’ debt as a percentage of their GDP is forecasted to stay above 120% until at least 2018 while emerging markets and developing countries will achieve debt levels below 30% on average by the same year. Finally, emerging and developing countries are expected to see their exports increase by 7.8% on average during the 2015-18 period while advanced economies will witness a 5.3% increase (IMF 2013a).

Based on this new reality, IMF representatives have been eager to convince emerging powers to increase their lending to the Fund while the EU has invited most of them, and in particular China with its huge foreign exchange reserves, to invest in its most powerful resource against the still evolving severe European Debt Crisis, the EFSF (BBC 2011, Financial Times 2011). In other words, the advanced world is asking for assistance from the developing one altering the picture of a once powerful ‘North’ which disregarded the weaker ‘South’.

Certainly, signs of this gradual formulation of a new global order can be found even sooner, during the Doha round trade negotiations for example. The importance of developing countries was partly recorded during the Doha talks as it was becoming apparent that the ‘North’ is less able to ‘convince’ the ‘South’ over what is needed to go forward with regard to greater trade liberalization. This inability of the North to push for specific decisions affecting international trade can be mainly attributed to the rise of a set of developing countries which are not willing to immediately sacrifice their national or regional interests or even the interests of the developing world. This development has been a first as, even though trade negotiations have become more
difficult, advanced economies had always been able to push for specific decisions (Young 2007; Bergsten 2005).

Going back to the differences between past and new ‘challengers’, it is important to highlight that the latter seem to share some common beliefs and agendas. Based on the fact that they have the same origins, i.e. being part of the developing world, emerging powers are trying to, at least verbally, formulate a common identity. Indeed, what they frequently declare is that they all share a common origin that differentiates them from the ‘North’, they originate from (and declare to represent) the ‘South’. This common origin is further reinforced by the fact that most emerging powers are leading members of regional integration schemes which include only developing countries as members. Brazil, for example, plays a crucial role in Mercosur, India in SAARC, South Africa in SADC, etc. Based on this fact, they tend to recurrently present themselves as representatives of the developing part of the world which is underrepresented in global governance structures and whose voice is not heard to the level it should be.

Hence, their calls for greater participation in global fora and organizations are argued to be justified not only by their enhanced economic position in the world scene but also by their testament that they represent the developing world. The same argument is also used by China, although it has just recently joined various regional integration projects such as ASEAN+3 and the East Asia Community one. On the other hand, Beijing has been arguing to represent the developing world as early as PRC’s foundation during 1949 while contemporary statements of Chinese leaders always include the developing country character of China (Chin 2012). This additional feature of the new ‘challengers’ is assisting them to be brought together for forwarding several changes in global governance structures although they also push for their own national interests.

Hence, some of the most important emerging powers of the 21st century are not only unilaterally challenging the global status quo but they are also cooperating and coordinating with each other, a development that can potentially act as a power multiplier. Of course, initiatives of developing countries coordinating their positions can be found scattered throughout the past decades, see for example the ‘Tuvalu Plan’ during the 2009 summit on global warming in Copenhagen, but they were on an ad-hoc basis and usually with no or mediocre results (Vidal 2009). On the other hand, a more concrete example of developing countries coordinating towards a fairer international system can be traced to five emerging powers, namely Brazil, Russia, India, China and South Africa (formulating the now famous acronym ‘BRICS’) which have gradually institutionalized their contacts and cooperation initiatives based on the aforementioned features, i.e. being developing countries that demand their greater participation in the global scene based on their enhanced financial position as well as on the idea that they represent the interests of the developing world.

Since 2009, the BRICS meet annually to discuss global and regional issues in an effort to formulate common positions. Indeed, to a certain degree a common voice is being formulated and the meetings now always end up with a joint statement in which specific calls over global governance issues are recorded. For example, in 2011 the BRICS issued a statement declaring that the tradition of appointing a person from Europe as managing director of the IMF undermined the legitimacy of the Fund and thus a merit-based decision making process had to be selected (IMF 2011a). Although, it was in the end a European, i.e. Christine Lagarde, who took the position, the formulation of a common position among five quite different countries can be seen as a positive development towards South-South cooperation. In fact, the common practice of the managing director of the IMF being appointed from Europe while the
president of the World Bank being appointed from the US has long been under the focus of the BRICS as in terms of symbolisms it represents the very unbalanced, undemocratic and unfair structure of contemporary global governance.

It should be noted, though, that many analysts tend to see the BRICS as a rather weak group of states with no great potential on formulating common views. As mentioned in the recent international conference “New Regional Powers: What Role for Europe” report which is part of the GR:EE N research program, “at a closer look, the latest wave of aspiring regional powers shows a general lack of common views, political purposes and interests... makes it much less likely... to provide each other mutual support against major powers and the international community” (GR:EE N 2013).

Indeed, although the BRICS countries had called for a merit-based selection process of the World Bank president during the 2012 elections, they were not able to identify a common candidate or at least support the sole candidate from the developing world, i.e. Mrs. Ngozi Okonjo-Iweala from Nigeria (BRICS Declaration 2012). The final appointment of US citizen Jim Yong Kim left a sentiment of inability by the developing world’s part to coordinate efficiently and to reach tangible results.

On the other hand, one might argue that it is too early to test the ability of the BRICS to coordinate between themselves, push for commonly agreed positions and support each other. After all, even within the EU where countries have been working in a joint project for more than 50 years now significant disagreements may evolve while transatlantic relations have much been tested during the past two decades. What is important from this paper’s side is that emerging powers have been gradually exposing themselves to coordination patterns that could potentially enhance common positions, increase friendly ties and, most importantly, strengthen a notion of ‘us’ or ‘we’. Moreover, if someone focuses on recent decisions it becomes obvious that the BRICS are gradually decreasing or trying to decrease their dependency on the North in general and the US in particular while on the same time increase interdependence among them. So, for example, they have agreed to a greater use of their national currencies for trade flows between them leading to a decrease of use (and importance) of the US dollar while they have initiated discussions on further enhancing financial flows between their economies (see BRIC Summit Joint Statement, April 2010; BRICS Sanya Declaration, April 2011 and BRICS Summit Joint Statement, March 2012).

This development is found in accordance with their unilateral efforts to decrease their dependence on the North as most of them have to some extent differentiated their international investment portfolio to reduce dependence on American assets, China has set to increase the contribution of private consumption to its GDP in order to become less dependent on the American and European markets (see 12th 5-Year Plan), etc. Through these initiatives, the BRICS are attempting to change the current global financial system which tends to operate mainly as a hub and spoke system with the US and the EU being the hubs and the other world being the spokes. By enhancing flows among themselves they increase their interdependence, which is supportive to constructivism-related processes of formulating common identities, as well as decrease their dependence on, and thus the probability of succumbing to the pressure of, advanced economies whose dominance in the global financial system they challenge.

Do they really ‘challenge’?

Overall it is true that in effect emerging countries’ increased economic power is allowing them to seek for increased participation in the decision making mechanisms of international institutions such as the World Bank and the IMF. Such a strategy
seems to challenge the control over existing structures and not the structures themselves. But evidence suggests that a parallel strategy exists of challenging the existing structures overall: all major emerging powers have either formulated or joined other developing countries in establishing South-to-South development banks and funds which, although usually declared not to replace existing IFIs, are expected to offer valuable financial resources to developing countries in need with more preferable conditions attached that are not viewed as clear interference to national structures, in essence providing an alternative to IFIs’ conditional funding.

Hence, in contrast to past challengers that had solely won at best a more prominent position within existing structures, the new challengers have moved towards challenging the very structures. During the 1997 Asian financial crisis Japan had, for example, the opportunity to lead a rescue plan that would act outside the already standing global and regional structures but failed to take the initiated under the pressure of the US (Stubbs 2002; Sohn 2007). On the other hand, China is channeling significant funds not only through the North-controlled institutions such as the IMF, the World Bank and the Asian Development Bank, etc, but also through other mechanisms such as the Chiang Mai Initiative (providing US$38.4 billion) or the now more extrovert China Development Bank (The Establishment of The Chiang Mai Initiative Multilateralization 2009: attachment 1; China Development Bank 2011).

Likewise, Brazil is one of the main contributors to the Bank of the South, a World Bank equivalent for the countries of South America, established in September 2009. This regional banking institution, which had an initial capital of $20 billion, represents the South American view that providing funding to economies in need should not be constrained by strict conditions referring to how national structures should be and operate. The Bank was founded to cover the need for lending money to nations across the American continent for undertaking programs directed at social policies and infrastructure (Brazilian Ministry of External Relations 2011; MercoPress 2009).

Going forward, besides these more or less region-specific initiatives, during the 4th BRICS meeting in New Delhi, India on the 29 March 2012, discussions included the possibility of the creation of a BRICS-level institution, a ‘BRICS bank’. Such an institution would act as a development bank, funding development and infrastructure projects throughout the developing world. In addition, the new bank would be expected to offer lending during future global financial crises as well as issue convertible debt, which would be available to all five members’ central banks (BRICS Statement 2012).

The BRICS bank initiative has the same scope as the two major existing instruments of global financial governance, the IMF and the World Bank. Although, the BRICS statements since then include the position that this new initiative will not challenge existing IFIs, it is not very convincing. As the Bank could support developing countries in need of capital without some of the famous conditionalities imposed by the World Bank and the IMF then it is logical to assume that such countries will have a more preferable alternative. As with the region-wide pools of funds created in East Asia and South America, the BRICS bank can become a challenge of existing IFIs and thus the North. Indeed, the significance of the proposal for a development bank – even if never realized – cannot be overstated: such a bank could form a protective shield against Western interests and Western interference in the agendas of developing nations (Petropoulos 2013).

Emerging powers are challenging the global governance structures also in another, quite relevant, domain, that of bilateral development assistance. In essence, most emerging powers have also been labeled ‘emerging donors’ based on their
activities in the field of development assistance. This new phenomenon is great enough to generate a multiplication of reports and news of such countries entering the field of development assistance. For various reasons ranging from promoting national interests to answering the call for being responsible world powers, a series of new donors such as Saudi Arabia, Brazil, Venezuela and China have emerged. This new development has been so significant that the usual donors, i.e. members of the OECD Development Assistance Committee (DAC), have commissioned several reports and analyses of what is now called emerging donors, i.e. a group of states that have recently commenced distributing development assistance across the globe and which are not members of the DAC (Chin and Fahimul 2012). The latter attribute is of great importance as non-DAC membership means that emerging donors do not have to follow the norms developed by DAC or even publish data on their development assistance programs (Smith 2011; ONE 2010). This has, among others, as an effect the inability to calculate the actual levels of global development assistance disbursement. As Woods (2008) highlights, some conservative estimates set emerging donors’ development assistance to over $1 billion since 2010, while other estimations raise such figures to around $8.5 billion during just 2006.

Smith (2011), for example, assesses the effect of new donors in the field of humanitarian aid. He finds that the BRICS, for instance, have channeled more than US$3.7 billion just in 2009, while during the same year Kuwait, Saudi Arabia and UAE jointly dispatched more than US$4 billion to countries in need. He finds it impossible to reach to a conclusion due to data inevitability and calls for all countries agreeing to a common format of presenting their aid activities. On the other hand, a CHR. Michelsen Institute report (2007) analyzes the aid programs of East Asian countries, much mobilized by the enhancement of Chinese activities throughout the world but mainly in Africa, a rather popular issue.

Indeed, among new donors, China is found in the spotlight. The fact that the Chinese government has selected to stress the South-South dimension of its aid program has some impact on how old donors perceive Beijing aid related activities. The foremost issue raised by the importance given by China to its identification as a still developing country is that although now a net aid donor, Beijing has not joined the DAC (Chin 2012). As DAC members are supposed to follow a North-South approach to their development assistance programs, China does not identify itself as one among them as this would come into contrast with Beijing’s declarations of equality and of mutual respect between itself and its aid recipient countries (Davies 2008).

As China and other emerging donors do not always abide to the rules established by the North, as expressed by DAC’s principles and accepted norms, they are becoming an alternative source of aid which is usually more welcome – see for example China’s presence in most African countries. Indeed, there is evidence that in several cases Chinese aid acted as an alternative to Western aid. For instance, China seems to have acted as a way to escape stricter funding rules imposed by the World Bank in the case of Nigerian railways or the IMF in the case of Angola (Woods 2008; Brautigam 2011).

Going further, some emerging powers are also ‘meddling’ with the status quo in the private sector due to the increased involvement of their multinationals, supported by national institutions, in investment activities abroad. So, as far as investment is concerned, the significant financial resources gathered within emerging powers and the existence of successful MNCs originating from the South have allowed for partly replacing the North and many of its companies. In Eastern Europe, for example, Chinese companies assisted by Chinese authorities as well as banks are undertaking
projects abandoned by western companies hurt by the crisis. On the other hand, countries such as Venezuela and Brazil are offering significant resources to their South American fellow countries much replacing the need to rely on financial resources from the US government or US companies (Forero 2010; MercoPress 2007).

In 2012, Chinese Eximbank accepted to grant a loan (850 million euros) to Serbia for further road infrastructure projects across the country while Chinese companies are to construct a 500 MW thermal power plant worth of more than 1 billion euros and two new nuclear reactors at Cernavodă in Romania while Beijing has also pledged to finance the construction of a 1000 MW hydroelectric power station in Tarniţa-Lăpuşteşti with a cost of around 1.3 billion euros. In addition, China Development Bank is funding a 300MW coal-fired plant in Stanari, Bosnia (Poulain 2011) while it will also cover 85% of the costs for the construction of 12 hydropower plants along the Vardar River in FYROM (Balkans.com 2011).

Hence, emerging powers are not just challenging the official sector’s global financial scene but their rise has also some, at least, effects over the private sector’s global financial system as well. Furthermore, the examples presented above highlight the fact that emerging powers are not just taking initiatives in regions of the world that are much off the radar of the North and thus there is not much competition or interest on their activities but on the contrary they focus on geographic areas that constitute the ‘backyards’ of major western economic poles such as the US and the EU.

Finally, another, rather important, aspect of new powers emergence should be highlighted. Their rise is based in a version of capitalism quite distinct from the liberal capitalism of the ‘Washington Consensus’. In this sense, the challenge posed to existing global structures is expanded to an ideological ground: a different path to economic development, different than the path pushed by the US, the EU and contemporary IFIs is proposed.

Certainly, emerging powers do not follow the same, identical, economic policies but several similarities do exist. The new version(s) of capitalism, titled in some cases ‘politicized capitalism’ (Nee et al 2007), in some others ‘state capitalism’ (Wade 1990) and to more extreme cases ‘centrally managed capitalism’ (Lin 2010), can be more easily spotted in East Asia but is also partly apparent in Latin America, South Asia and even Southern Africa. In all cases, the role of the state is found to be more enhanced than just being a ‘night watchman’ with governments occasionally – or in some cases even continuously – meddling with the markets. The most influential, of course, path is the Chinese one with the ‘Beijing Consensus’ gradually being portrayed as the new ideological challenger of liberal capitalism (Ramo 2004).

As expected, these ideological differences are present in the new institutions of the ‘South’ in the sense that their activities are not leading to pushing for less state intervention in developing countries in need. Thus, although for the time being there are no clear indications that emerging powers are also trying to infuse these ideological differences into existing global governance structures, emerging powers are not tying their support to other developing countries to structural adjustments that would decrease the involvement of the state in the national markets. In addition, emerging powers success-stories are actually creating a trend towards rejecting the policy prescriptions of the West through highlighting an alternative path to economic development.
Conclusion

This paper attempted to provide a clear snapshot of current developments in contemporary global (financial) order. It is unquestionable that the rise of several emerging powers around the world, and China in particular, has rendered current global governance structures which date back much to the post World War II period less representative of today’s state of affairs and thus more fragile and prone to reforms. The recent global financial crisis, in turn, acted as an accelerator of a process in motion since the late 1990s which will definitely lead to a more balanced representation of the developing world in global fora and institutions. For example, the G20 meetings are now a much irreversible reality while, even with significant delays, both the IMF and the World Bank are going to become more sensitive to emerging powers’, in particular, as well as the developing world’s, in general, opinions and ideas due to the changes in voting rights. This path has been directed by the significant economic rise of new powers in the global scene making the aforementioned process inescapable.

On the other hand, reforms within the United Nations, especially regarding the Security Council, are expected to take longer to be agreed and even longer to take effect. After all, the rise of emerging powers is mainly based on financial reasons while the Security Council’s operations are (supposed to be) mirroring overall power (thus including military capabilities) distribution. Moreover, unlike the case of global structures responsible for financial issues in which emerging powers were actually invited to increase their participation, especially under the urgency created by the recent global financial crisis, this is not the case for the UNSC that focuses on security related issues.

Furthermore, the challenge of current status-quo posed by emerging powers is also taking an ideological flair. The new version of capitalism followed by most emerging economies and especially the ‘Beijing Consensus’ is challenging existing economic wisdom advertised by the US and the EU and formulates an alternative path to economic development.

But will this new trend lead to a different world than the one we currently live in? This can only tentatively be answered as history is arguably not a linear process by which certainty over future outcomes can be achieved. In essence, current data and forecasts indicate that the developing world as a whole is going to become more influential in world politics irrespectively of any possible accidents regarding China’s or Brazil’s, for example, economic growth rates. What is also quite probable is that significant dependence of emerging powers on the North is going to be decreased as national economic policies tend to enhance private spending across East Asia and elsewhere and as economic cooperation in a South-South logic continues to expand. Hence, the much analyzed during the 2007-2008 period ‘decoupling theory’ (see for example Helbling et al 2007; Rossi 2008; Kose et al 2008; Pula and Peltonen 2009) can be again brought to the spotlights in the midterm.

In addition, the coordination of policies through groups and fora such as the BRICS are likely to reinforce the notion of ‘us’ or ‘we’ among the major representatives of the ‘South’ leading to possible common norms and positions that could be projected in the global level. Several of such initiatives are already set in motion: the Chiang Main Initiative in East Asia, the Bank of the South in South America and the possible formulation of a BRICS bank represent the institutionalization of a commonly accepted norm within the developing world that current global and regional aid-related organizations are not working properly and to the sole benefit of recipient countries. In addition, these initiatives are based on already established patterns in
most emerging powers’ bilateral aid activities and have gained the attention of the North as they (or can) constitute alternatives to the processes and norms established by the developed world.

The outcome of this process remains much unknown. It is possible that emerging powers are socialized within the already established ‘global’ norms and accept a greater involvement in current global governance structures as they are, especially in the case that common positions and coordinated initiatives among them are not achieved. But it is also possible that norms derived from the developing world are infused in current global institutions in the fear of the latter becoming obsolete due to the alternative created by emerging powers’ initiatives. This is something to be seen and could much be conditioned on how successful the reforms of current institutions will be; after all, institutions in general need to adapt to new environments or become obsolete – although they tend to stick around for some time after the environment that created them changes. Overall, the future encloses significant uncertainties especially in a much changing 21st century. After all, who could forecast 15 years ago that the prone ‘not to disturb, not to alarm others’ China would criticize US economic policies and threaten the mighty EU with trade wars or that a country such as Brazil would defy American and European leaders by proposing what seems a more balanced solution to a global issue created by a country far away from South America, i.e. Iran and its nuclear program.

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