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On the Changing International Political & Economic Order (Part I)

By Guo Sizhi

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Introduction

The international political and economic order has been changing significantly in recent years, with emerging nations like China, the international financial crisis, the US-China confrontation, and increasing rivalry between liberal democratic nations and authoritarian nations. The presence of the developed nations in the global economy is declining and that of emerging nations or regions such as China is rising. The main players in global economic development or trade and investment are no longer only the developed nations but emerging nations as well, and so the global economy has become more multipolarized.

In this article, I would like to analyze this change in the global political and economic structure, including the emerging new relations between the Global South and the G7 nations, and propose a new foreign policy strategy for Japan to adopt in the future.

Changing Shift of the Global Economy to Multipolarization

Since early in the 21st century, in particular since the financial crisis of September 2008 that started in the United States, the global economic structure and power balance has been changing significantly. Up until then, the developed economies occupied an overwhelming share and status in the world economy, accounting in 1990 for more than 85% of world GDP, more than 70% of global trade, and more than 90% of total FDI. However, by 2020, their share had declined significantly, with their share of world GDP, global trade and total FDI dropping to 55.5%, 60.8% and 69.8% respectively. Also, the developed nations' foreign currency reserves increased from $552.7 billion in 1990 to $3.37 trillion, but their global share in total declined from around 70% to less than 30%. Furthermore, in 2022, their GDP share and global trade decreased by 1.7% point and 1.4% point respectively from 2020 *(Table)*.

Meanwhile, the presence of newly emerging nations such as China has been enhanced and their share of global GDP, trade and FDI increased from around 15%, 26% and 17% in 1990 to 46%, 41% and 26% in 2020. As for foreign currency reserves, their global share increased from 34% in 1990 to around 70% in 2022. Incidentally, their GDP share declined by 0.5% due to their stagnant economies in 2023, but their presence is still high.

This is how the GDP share gap between developed nations and newly emerging economies has been declining since 2000, though it was still 40% in 2010, namely the developed nations' share was 70% and the emerging nations' share was 30%. Since 2010, the GDP share gap between the two groups has been sharply shrinking. As in the *Chart*, it is predicted that the weight of the GDP of emerging nations, in particular the emerging Asian nations, will continue to rise and eventually in 2050, the positions of the GDP share of developed nations and the major emerging nations will be reversed.

Such a shift would mean greater responsibility for the newly emerging nations in the global economy, as well as rapidly increasing global markets. Among those economies in particular, it would be BRICS nations such as China as well as ASEAN and

TABLE

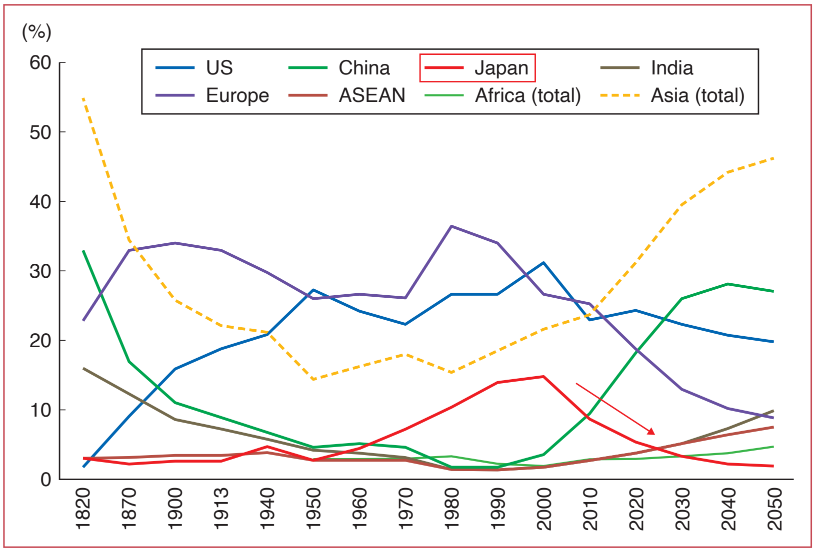
Changes in shares of developed nations & emerging nations

	1990				2000				2020				2022				2023
	Nominal GDP	Trade	FDI	Foreign currency reserves	Nominal GDP	Trade	FDI	Foreign currency reserves	Nominal GDP	Trade	FDI	Foreign currency reserves	Nominal GDP	Trade	FDI	Foreign currency reserves	Nominal GDP
Developed nations share (%)	85.4	73.9	82.7	65.8	74.0	62.0	91.4	42.1	55.5	60.8	69.8	29.5	53.8	59.4	74.3	30.2	54.3
Emerging nations share (%)	14.6	26.1	17.3	34.2	26.0	38.0	8.6	57.9	44.5	39.2	30.2	79.5	46.2	40.6	25.7	69.8	45.7
Total	22241	6787	184	840	32287	12792	1201	2071	84439	37534	1314	15200	100077	43994	1708	14839	103079

Sources: Compiled by the author based on IMF, JETRO

CHART

GDP share of principal emerging nations & developed nations



Source: Mitsubishi Research Institute

emerging Asian nations that will promote the global economy. Even before the global financial crisis in 2008, emerging economies with China as a frontrunner followed by India and the Southeast Asian economies had already begun remarkable growth and were beginning to reach the status of the core of global economic growth. Today, though their economic growth is slowing down somewhat, they are still pushing the world economy's development with their huge markets and critical global supply chains.

Meanwhile, with this power shift in the world economy, a great transformation in the world economic structure as well as the global governance system is emerging. Hitherto, until the global financial crisis, the G7 and the other principal international organizations such as the IMF and WTO under US leadership were in charge of tackling issues like international finance, trade and investment, as well as the environment. But with the emergence of new economies like China and their expanding powers, the developed nations will not be able to fix global issues by themselves. For example, in 2009 the G20, which included emerging economies, was organized to deal with the global financial crisis as a venue for new global governance to tackle major issues relating to the economy, finance, energy, and environment. In 2011 as well, the Special Drawing Rights (SDR) in the IMF for the major emerging nations was raised from 2.98% up to 2006 to 6.39%, the third-highest ratio after the US (17.41%) and Japan (6.46%).

Transformation of Governance System

With a change in the power balance of the global economy, the global political and economic structure or governance system is beginning to change. In other words, the multipolarization of the world economy is greatly affecting surveillance and governance of the international economic system. These significant changes can be seen in the following respects.

First, the enhanced presence of the emerging economies in the IMF and the emergence of the Chinese yuan as an international currency. With China as the third-largest investing nation among IMF members in 2011, the rule that endowed the five-largest investing nations in the IMF (the US, Japan, Germany, France, and the United Kingdom) up to 2010 with the right to appoint its board members was abolished, and all the board members were now to be elected in a non-discriminatory way. This meant that either the UK or France, as equal fourth-largest investing nations, lost their appointed board members posts. This fundamental reshuffling of newly emerging nations' quota ratio accelerated reform of the IMF executive board. In addition, China, as it had long hoped, joined the "international currencies" on Oct. 1, 2016, when the IMF adopted the yuan as a basket currency for the SDR. The SDR is a reserve asset assigned to member nations of the IMF, meant for emergency financing in the event of a currency crisis when it can be exchanged for key currencies like the dollar and consisted of the dollar, the euro, the yen and the pound. With the yuan as a part of the SDR, it was acknowledged as an "international reserve currency", a status symbol for major nations in the world, and so China's presence was significantly raised.

With this power shift in the world economy as well as the changing governance system, the global economic structure is being transformed into a multipolarized one, with the co-existence of developed nations, BRICS and emerging Asian nations. The old global governance system, built on a paradigm dominated by developed nations in which the G7 plays the role of decision-maker through the IMF and the World Bank and rules over the whole international currency system, cannot work well anymore.

Secondly, the birth of the Asian Infrastructure Investment Bank (AIIB), the bank for the BRICS. In March 2013, the five BRICS nations – Brazil, Russia, India, China and South Africa – agreed to establish a "Development Bank for BRICS" aiming at construction of infrastructure such as highways or port facilities in newly emerging and developing nations at their summit meeting in Durban, South Africa, and established a joint fund of foreign currency reserves with $100 billion. Note that Algeria's membership of the bank was formally approved at the annual board meeting of the BRICS bank at the end of August 2024. Membership was further expanded, making Algeria the ninth member, following Brazil, Russia, India, China, South Africa, Bangladesh, UAE, and Egypt.

Their principal objective was to strengthen the links of developing nations through finance and trade, to be activated by long-term infrastructure building projects. But its purpose was not necessarily limited to this; it was also to countervail the developed nations leading international finance and enhance their own influence on the international financial system, against the background of their complaints that the existing international financial system such as the IMF and the World Bank were dominated by the interests of the Western nations. At this moment, the BRICS nations, with $4.40 trillion in foreign currency reserves and more than 40% of the world's population, are trying to raise their presence and political power in global finance to correspond to their emerging economic power. To be more specific, they are working to create a new international financial order in which the emerging nations' economic power is well reflected, clearly indicating that they are leaving the Bretton Woods System established after World War II.

Furthermore, in autumn 2013, China took the initiative in establishing the AIIB and it was started on Dec. 25, 2015. This is an international financial institution for Asian and other developing nations. It was established with capital of $100 billion and 70 nations and regions joined in March 2017, more than 67 of them members of the Asian Development Bank (ADB), and it has expanded to 85-90 members at this moment. Its aim is to supplement financing for social infrastructures in emerging and developing Asian nations that cannot be fully provided by the ADB, led by the US and Japan, as well as leading US financial institutions. It also tries to countervail the existing international financial system that depends upon the US and other developed nations. Incidentally, China is trying to take advantage of the AIIB's financial support for infrastructure to realize its "One Belt, One Road" initiative and enhance its political and economic presence among 69 nations across Asia, in particular Central Asia and the Middle East.

Thirdly, the expanding influence of emerging nations in the WTO. With the increase in their share of world trade, the emerging nations are beginning to strengthen their voice on international trade issues. At the same time, their presence has drawn global attention as nations provoking trade friction. Since the 2000s, trade friction has intensified between China and the US or EU in sectors such as home electronics equipment, textiles, or equipment and components for renewable energy-related items like solar panels. Developed nations have claimed that emerging nations are insufficiently open, against the background of their high exporting competitiveness, while the emerging nations are requesting their Western trading partners to open their markets more fully and complaining about trade protectionism.

Looking at the utilization of WTO dispute settlements by emerging nations, in December 2012, in terms of accusations, there were 21 cases from India, 26 from Brazil, 11 from China, 18 from Argentina, 23 from Mexico and 15 from South Korea. These nations are actively using the WTO dispute settlement mechanism. On the other hand, on the side of accused, there were 21 cases related to India, 14 to Brazil, 29 to China, 21 to Argentina, 14 to Mexico and 14 to South Korea.

You can also see clearly how emerging nations' growing presence is provoking trade friction through anti-dumping duties activation. At the end of 2005, India topped the list of nations imposing such duties, with 316 cases. Brazil was 11th with 66 cases and China was ninth with 68 cases. As for nations having such duties imposed against them, China was top with 338 cases, and South Korea was second with more than 200 cases. The remaining BRICS nations were all ranked in the top 10. In 2009, India had 486 cases of imposing anti-dumping duties on other nations' goods and China had 154 cases. Meanwhile, there were 643 cases of such duties being imposed on China, 172 on South Korea, and 109 on Taiwan. This implies that the major emerging nations would be a threat to developed nations as strong competitors and how, as trading partners, they provoke trade friction.

The nationality of the WTO director-general reflects the change in the WTO decision-making system. In August 2013, Pascal Lamy, a French national, finished his term and was succeeded by Roberto Azevedo, a Brazilian, on Sept. 1, 2013. The post of WTO director-general had been occupied by developed nations until then, with the sole exception of Supachai Panitchpakdi from Thailand. However, with the increased presence of the emerging and developing nations, in 2013 the view that the WTO should be headed by someone from an emerging nation grew and Azevedo got strong support. In addition, in September of that year, Yi Xiaozhun, the Chinese ambassador to the WTO, and three others were appointed deputy directors-general of the WTO. Furthermore, in February 2021, Ngozi Okonjo-Iweala, former Treasury minister of Nigeria, was elected as WTO director-general, reflecting the possible benefits of multilateralism and diversity within the WTO.

Finally, it is noteworthy that the G20 is expanding its presence. A shift from G7 or G8 summit meetings to the G20 suggests a regime transition from a global political economy overseen by the US and other Western developed nations to a multipolarized system with the BRICS nations and other emerging nations playing greater roles. The G7 consists of the US, UK, France, Germany, Italy, Japan and Canada, and the EU as a "non-enumerated member", and has held regular finance minister and central banks governors' meetings. Since 1999, Russia and 11 other emerging nations – China, India, Brazil, Mexico, South Africa, Australia, South Korea, Indonesia, Saudi Arabia, Turkey and Argentina – have joined meetings of the G20 finance ministers and central bank governors. They discuss the world economy, finance, and energy security issues with the participation of the IMF, World Bank, IEA, ECB and other affiliated international organizations. These G20 meetings at the ministerial level reflect the emergence of developing nations and their growing share of the world economy since 1990.

The US and UK, leading the G7, had been achieving economic development on the basis of financial capitalism. But with the collapse and bankruptcy of Lehman Brothers in September 2008, a global financial crisis began, and the developed world economy fell into a serious recession. While the economy of the US, which was a great importer of goods from the rest of the world, suffered significant damage, emerging nations like China that were not very well integrated into the US-UK financial system started to become an important engine for the world economy. It was realized that it would be impossible to solve global financial and economic issues within the old G8 governance framework. Against this background, in November 2008 in Washington DC a G20 economic summit meeting was organized, and after another meeting in London in April 2009, a further meeting was held in Pittsburgh in September 2009, where the G20 replaced the G7 as the venue for discussion on various global financial and economic issues as well as decision-making and global governance.

The G20 was organized once every half-year until 2010, and after 2011 once a year. Up to now G20 meetings have been held 18 times. The global economy is achieving recovery without falling into a great depression and is heading towards growth. Though there are still many challenges remaining for a smooth transition from a global economic recovery to stable growth, there are many who consider the G20 to be a successful policy coordination venue. From now on, G20 summits will need to strengthen their mission and function to overcome these challenges. But we can say that the birth of the G20 with the global financial crisis means that the venue of global governance has shifted from the G7 regime to a multipolarized system involving both developed and emerging nations.

(To be followed by Part II in the Jan./Feb. 2025 issue)

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