

## Emerging Economies And Global Stability: Irony In Current Predicament Of The Global Order

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### ABSTRACT

*The developments and the pace of earnings for the US have remained unparallel for many years. With respect to the Emerging Economies too the global environment continues to be growth supportive with a modest rise in the growth rate over last few years. Though the World is going through a wonderful and unparallel level of prosperity and connectivity yet these developments have to be taken in with complexity and risks. The US backed global order is questioned due to its vulnerability to collapse. The New World Order will state the unification of emerging economies as they are big powerhouses of resources. The global architecture of these economies thus will have to be restated in such a manner that underrepresentation of emerging economies is not done.*

*Keywords: -Emerging Economies, Global Order, New Financial Order*

### INTRODUCTION

The global economy has done very well and recorded its best performance in the last 6 years in 2017. This kind of performance has laid the stage for a sound economic development in 2018 with secular stagnation being put to rest and good global growth rates. In the case of the US Economy it will see a great pickup in growth. With respect to Japan its growth rates looks fade. China is slowly moving towards a gradual deceleration. The risks facing the World economy are low level threats but however the policy

mistakes or wrong decisions regarding policies have the potential to set back the economy.

### OVERVIEW OF MAJOR ECONOMIES

Speaking about the economy of the United States it is expected to fare off very well like was its performance in 2016 and 2017. The overall financial condition in the country is very sound with improved household balance sheets and high rates for capacity utilization. Further, if the Republican Tax Cuts and Jobs Act are passed it will lead to higher interest rates and lower the rate of unemployment in the country.

The labor markets for Europe will continue to improve with the expansion in Europe and that in turn contributes to real income growth. Exports may further be boosted by Euro and global growth. The external commercial borrowing is expected to have a gradual increase. Some amount of political uncertainty is rendered into the system due to elections in Italy and coalition challenges in Germany which keeps the expected growth of Euro zone to 2.2% in 2018. Likewise, for the United Kingdom the growth will be 1.1% due to the risk of a hard Brexit.

Though the economy of Japan will continue to grow, the growth rate might not be with the same momentum like it used to be in 2017. The growth is expected to soften a little bit. The weak Yen will attract exports and tourism but a softer growth in trade of China could be a reason for an offset. Domestic demand will remain moderate with a moderate rate of consumer spending growth.

China has not been able to handle the fundamental problems faced by its economy like problem of excess industrial capacity, debt overhang and a housing glut. The way the Government handles these problems will determine the structural reform of the future. The structural problems faced by the economy combined with governments policy response will result into a diminishing growth rate of 6.5%.

With respect to the Emerging Economies the global environment continues to be growth supportive with a modest rise in the growth rate of 4.9%. The growth pattern among these emerging economies too will be scattered and distributed in such a manner that a select few will witness strong growth rates in 2018 whereas other countries will face challenges. The debt burdens which are ever increasing can become a risky factor for many countries. In India, the conditions would be stabilized after the Indian economy is able to recover from the twin shocks of demonetization and imposition of services and goods tax.

The growth rates of Indonesia, Malaysia, Phillipines and Vietnam will sustain at 5-6%. Due to labor shortage Emerging Europe will see slower growth as against Latin American economies which will see better growth in 2018. The recovery from oil slump in Middle East will be slow and the big Sub Saharan economies will struggle to expand by more than 1%. The commodity prices will be bound by range due to factors like winding down of loose monetary policies, deleveraging in China's economy and a strong and mildly appreciating US dollar.

There will not be a sharp increase in inflation due to structural factors like technology and globalization. The tight labor market of the US has given indications of an upward trend in inflation rates. The emerging economy have been having a fall in inflation rates and is expected to further decline due to a stability in commodity prices and currencies. Thus, inflation will go up in the developed World and fall in the emerging countries.

### **MACROECONOMIC INDICATORS**

The Federal Reserve is expected to increase interest rates due to falling unemployment rates

and a potential inflation impact of a tax cut. The interest rates are not expected to be increased by the European Central Bank and the Bank of England, only the Bank of Canada is expected to increase interest rates in 2018. Similar is the condition with most of the Asian economies which are expected to tighten namely India, Philippines, Indonesia and South Korea. The pressure on the dollar would be upwards for the next year. This is because the Fed is well ahead of the other central banks in the tightening cycle. Also, as the growth rates for the US picks up investors will refocus on US assets and the tax bill of the US will further boost confidence and result in higher growth and interest rates.

### **LITERATURE REVIEW**

BRICS as an international organization is based on the twin standing of realism and liberalism. Realists are of the opinion that without limiting powers to the global bodies states maximize their objectives collectively whereas liberalists on the other hand opine that it is the international organizations which affect the behavior of the state hence in a way pushing the global bodies ahead. Global multilateralism says that the interests of the state and institutions are not always same yet they play a role as being complements to each other.

BRICS which started in 2001 is all about collective strength in terms of figures, population, resources etc. The report titled *Dreaming with BRICS: The Path to 2050* highlighted the significance of combined efforts of all the BRICS and how they would be able to outshine the G7 economies in less than 40 years. In the opinion of Zheng (2011) the population of all the BRIC economies put together accounts to almost 43 % of the global population which forms a major base of the strength of the BRICS.

In another study Brahma (2012) have identified the powers possessed by the BRICS in the form of R-5 club which means Real, Rouble, Rupee, Renmimbi and Rand.

There exists range of strategic bases which unites the BRICS economies in the forum of cross-continentals. The ethos of the "developing World"

have further paved way and broadened the ambitions to get richer and bigger in global politics and economic parameters. Various continents put together comprise of the BRICS and they enjoy huge cultural distinctiveness. Zhang and Li (2011) in their study have mentioned that China has huge potential in the form of the labor resources prevalent in the country combined with the rich economy and potential for Yuan. India on the other hand has immense recognition for its notable contributions in the software, IT potential and pharmacy outsourcing. Brazil is well-known for its natural reserves of energy – oil and natural gas. South Africa another member of the BRICS has a rich natural resource.

The BRICS summit held in June 2009 in Russia focused on the central idea of how the BRIC economies could work collectively to handle and overcome the ill effects of the global financial crisis. The BRIC members could collectively seek trade and financial cooperation from each other in expanding the interests of developing countries (Alexey, 2013). The joint statement of the BRICS further highlighted the significance of appointing heads and senior leader through an open and transparent system which should be based on merit-based selection process. It even further emphasized upon the need of an overall transformation in the global and economic architecture making it more democratic and transparent in nature. This will lead to a good level of compatibility between the national and international institutional mechanism and will help in strengthening the risk management practices.

Wang (2010) has stated the first two BRICS summits as an exercise of a teething nature for the multilateral organization. Further, the emerging multilateral grouping was heading more towards a sort of institutionalization. Boris (2010) has termed it as an effectively working body even if it is not institutionalized.

In the opinion of Juliet Eilperin and Brady Dennis (2017), other parties can impose potential carbon tariffs on the conditions that US threatens other countries for not taking actions comparable with its own. The US should depend on the initiatives and efforts taken by the Obama administration.

The climate related funding cut by President Trump in the first budget indicates that the United States would remain a party to the Paris Agreement. The nature of the agreement is decentralized and means that countries have flexibility in determining its own target and incorporation of the same in nationally determined contributions. Clara Brandi () conducted a study and stated that Mexico is the only country to refer to the possibility of border carbon adjustments in its NDC. It states that 25% emissions-reduction commitment could be increased to 40% though with certain conditions in mind including border carbon adjustments. While only one NDC includes an explicit reference to border carbon adjustments other things may be considered too.

A report by John Hawksworth (2017) Chief Economist PWC UK on how the global economic order is expected to change by 2050 states that the World economy could grow by more than double in size with its growth friendly policies and no major global shocks or threats. However, the drivers of the growth will be the emerging economies and E7 economies could increase their share of the growth. China is expected to emerge as the largest economy in the World accounting for 20% of the GDP of the World. In terms of PPP Mexico could be larger than the UK and Germany by 2050 and largest economies of the World could be the emerging economies. The advanced economies of the World will continue to have higher incomes and emerging economies should make progress towards bridging the gap. Few structural reforms need to be implemented by the governments of the emerging economies in order to improve the macroeconomic stability and diversify the economies towards reliance on natural resources thereby developing more effective political and legal institutions.

#### **GLOBAL GROWTH MOMENTUM**

It is assumed fairly that the coming year will be recession free due to low policy mistakes or black swans like it is called and a good global growth momentum which is further intensifying.

- **Updation in the Institutional Architecture of the Global economy should be done:** - The interconnection between the financial

system of the World economies calls for a contagion effect. China has outperformed its fellow economies in many ways and has hence emerged as the second largest economy of the World. The renminbi has been given place along with the US dollar, euro, Japanese Yen and British pound to determine the value of IMF's reserve asset. The contribution of the BRICS has been noticeable in driving growth of the new engine of the global economy and reshaping and redefining the global order.

- **Underrepresentation of Emerging Economies:** - The attempts done towards reforming the Bretton Woods have been fragmented and uncoordinated. The G20 was established with an objective of expanding the global economic governance beyond G8. Though the G20 promoted plans to reform the governance the governance was mainly dominated by the United States which retained its veto power.
- **Proactive work by Multilateral Economic Institutions:** - In order to be effective the multilateral economic institutions should work proactively and not wait for the developed countries to work together. The advanced economies cannot relinquish their claim to the top. The main European countries largely have a deafening silence towards these major issues. The emerging economies have clarified that a plan should be made if all stakeholders commit towards making necessary changes.
- **China could take the Lead:** - China can take the lead and bring about changes in the forefront which can be radical enough. It has already made its mark with two multilateral institutions – the Asian Infrastructure Investment Bank and The New Development Bank. The silk route too has been financed by the Chinese government. The institutions are massive enough to finance the infrastructural projects in the region. Though NDB is limited to BRICS the AIIB has 56 shareholder countries.
- **Eminent Persons Group on Global Financial Governance:** - An Eminent Persons Group on Global Financial Governance was formed by the finance ministers of G 20 with an aim to make

recommendations on reforming the infrastructure for the World economy. The works of the countries will have to be reconciled and a concrete plan for rebalancing had to be created. The reform of these countries has to be done quite deliberately like the Bretton Woods institutions. However, consensus has to be reached regarding concrete policy actions and decisions to be taken, merely discussions alone will not be enough.

- **Surviving without America:** - The USA has long been a leader and crisis manager and rather than wholly delegating the leadership responsibilities to the institutions themselves the intervention by the US should be on an ad hoc basis. It will not be in the fitness of things if Trump decides that US should be making its own rules but if other major players cooperate the Bretton Woods system can be made to survive the changing economic dynamics.

#### **WEF and the Future of global stability: -**

In the World Economic Forum three competing versions of the future seemed to crashed together. Donald Trump called on for a full scale US retreat whereas Chinese leader gave in a model of a global economic system built around Beijing. Not just this the leaders of Canada and France urged the western leaders to double down on the current liberal order.

Their discussions will be very helpful in determining the future of the global economies. Through this ride the major leaders should navigate the economies by their new ideas, institutions and blueprints. The global order of the world is experiencing a state of meltdown where there is a lot of instability and the World is experiencing a shift from a uni polar to a multi polar reality. The leaders should play important role to handle the situation with utmost care and prevent a major collapse.

The old global liberal order has peace and stability since 1945. The purpose with which it was designed was to prevent any kind of armed conflict. It is composed of the United Nations, International Monetary Fund, the World Bank, WTO and North Atlantic Treaty Organization and the G 20 which have all seen ups and downs.

Though rules are necessary to be followed it is always challenging as to who will write and enforce them.

### **Rise of China and Relative decline of US**

The rise of China has been a stupendous one and a relative decline in the US has the potential for cascading miscalculations. The US has been putting in some trade actions which are against China and will result into devastating effects for the global economy.

**China versus US Economy** - The present condition of the Chinese economy is very sound and it is in the process of surpassing the economy of US. According to a measure about 35% of the growth of the World will come from China, 18% from US, 9% would be the contribution of India and Europe will account for 8%. Estimates say that by 2050, the top five economies of the World will be China, India, US, Brazil and Indonesia.

**OBOR** - The One Belt and One Road project which stretched over 65 years includes new roads, shipping lanes and building projects. It has led to largest urbanization and infrastructure development scheme and rewiring trade from China throughout Asia, Middle East, Africa and Europe.

**Environment friendly policies** - As far as the climatic conditions are concerned with China is all set to become a global green powerhouse with conscious efforts being put into the direction of climate change direction, using fully electric vehicles and cutting down on coal usage. The country has signed 2015 Paris agreement and with it, it has led charge of developing itself an environment friendly country. Within the next three years China has committed towards achieving blue skies.

**Digitalization of Processes** - Digital economy will be economy of future and hence Chinese policymakers have set the global pace for a digital economy. This has been effected through cashless payments and e commerce delivery being effected. According to a report about 90% of all commercial and retail transactions in China take place through Alipay and Wechat.

**Universities in China** - The Chinese universities are delivering education par excellence and the same can be seen in the rankings it has enjoyed on the international grounds. The Peking

University and Tsinghua University have jumped up from being below 200 to being in the top 30 universities in a span of five years.

### **Current Tariff war between US and China**

Contemporary wars of any kind should be avoided as it is not in the benefit for any country. It should be only applied or used as an ultimate resource when survival is at stake. Economists today are of the opinion that it is not important to win trade wars rather they are considered to be economically disruptive. The interlinked nature of the economies have rendered a state for themselves when any disruption to any economy outside might have far reaching implications for the economies linked to it also. Speaking about the condition of China at present, it behaves rationally because it knows that strategic approval and approach is the best way out to keep away from any unforeseen consequences. Given the condition of war between both the countries it is the US that has more to lose than China given that China is well prepared to cope up and be in a better shape after the trade war. In the case if there is a full war and China restricts the US companies then the worst possible economic scenario for the US could be if the current administration is not in a position to reduce trade deficit of the US with the World. However, the dollar is visualized as a main competitive advantage for the US since it is the only currency in Earth which can be exchanged for any kind of real wealth. The US currency is needed to trade by most of the countries hence it can lead to a situation of a monetary bubble which is destined to burst because there are many alternatives for replacing the US dollar like Russia. Hence, Us should not put itself into a risk. China in the present state of affairs can win in two ways. One is by strengthening itself by investing into key areas like education, population and infrastructure. The other way out is by imposing such conditions that prevent any future menace in competitiveness.

### **Ease of tensions in the Korean peninsula following Trump-Kim summit**

A summit between the US and North Korean leaders have led to ease in tensions on the Korean Peninsula. The summit led to a complete denuclearization of the Korean Peninsula by the



North Korean leader Kim Jong Un while at the same time President Donald Trump promised to provide complete security guarantees to Pyongyang. Japan has even offered to provide assistance in the denuclearization process in cooperation with the US and South Korea. US is willing to put an end to the hostile relations between US and North Korea and help achieve economic prosperity and can reverse what is seen by the North Korea as a policy of hostility.

#### **US sanctions on Iran**

Following the seizure of the US Embassy in Tehran the United States have imposed restrictions on activities with Iran under various legal authorities since 1979. The department of State's Office of Economic Sanctions Policy and Implementation is responsible for the enforcement and implementation of various programs which restrict access to the US for companies which engage in activities in Iran.

#### **Continued volatility in oil prices**

Crucial talks were held between the US delegation recently to talk about the sanctions of Iranian oil imports. The sanctions by the US indicated that it will go by what is in the interest of the country and it will consider giving waivers from sanctions to some countries which require time to cut import of oil from Iran. India too was hoping to get some relief from the sanctions. It was decided that India will maintain the momentum of mutually beneficial bilateral cooperation in order to judge the impact of US sanctions.

**Irony in Current Predicament of the Global Order** – Though the World is going through a wonderful and unparallel level of prosperity and connectivity yet these developments have to be taken in with complexity and risks. The US backed global order is questioned due to its vulnerability to collapse. The stress generated in the global order is not effectively managed by the advanced countries of the World and there does not seem to be an incentive system to manage long term imperatives.

## **CONCLUSION**

**World stands at a desperate need for a Stable Global Order** – The World is in a desperate need of able and stable global governance. The surging opposition added to the liberal governance has further fueled conditions; this is so because of its inequalities and failure of the liberal order. The major threats for the global system as viewed by Francis Fukuyama and Jan-Werner Muller are populism and parochial economic nationalism. For all directed efforts to be effected a realization has to be made regarding the US hegemony being over. The period of Uncle Sam being at the forefront of all economic activities are over and World now stands at a multi polar order with both US and China being in the centre. Stable institutions should be built and G 20, regional organizations, Urban 20 will have to be given a platform to perform.

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