

Emerging Powers and Global Inequality Challenges

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I. Who are Emerging Powers and why?

The global political landscape is in flux. Today, a group of big, rapidly growing developing countries is rising. Over the next decades, they will have economies that can rival the economic predominance of the advanced industrialized countries. There will be an important shift in economic gravity and many observers see at the core of that shift the four largest emerging economies: Brazil, Russia, India and China - the so-called **BRIC countries**.

Currently the *economies of the BRICs account for less than 15% of the pooled GDP of the six biggest economies of the industrialized world* (US, Japan, Germany, France, Great Britain, Italy). But following projections by Goldman Sachs, these countries could soon become a much larger force in the world economy than they are now. *In less than 40 years, so the projections, the BRIC economies together could be larger than the G6*

(Wilson/Purushothaman 2003). An updated forecast suggests that the BRICs could catch up even more quickly with the industrialized countries, and that with Mexico another emerging economy has the capacity to become equally globally important as the BRICs (O'Neill et al 2005).

There is no doubt that the rise of this set of countries – to which we will refer in the following as *Emerging Powers* - is a key aspect of the globalised era. **What makes them special is that they have the scale and the potential to challenge the established economies in terms of influence on the world economy.**

The notion of *Emerging Powers* presupposes a number of *characteristics*. *Dynamic growth* is a very important one, but not the only. Other characteristics are *demographics, regional preponderance, aspiration to a global role and growing soft power*. Besides their economic weight, **Emerging Powers stand out both on their demographic and geographical size, and they possess as well a range of political resources and some capacity to contribute to the production of international and regional order** (Hurrell 2006).

Thus, it makes sense to include *South Africa* in this group of emerging countries – although its economy will be significantly smaller than that of the others, largely because of the particular demographic challenges in Africa. Together these countries account for a share of 44.4% of the world population – compared to a mere 18% of the OECD countries.

The case for including these *Emerging Powers* – besides the four BRIC countries also South Africa and Mexico - in global policymaking in a systematic way is overwhelming. At its summit last year in Heiligendamm, the G 8 made a significant move forward to formalize a **new relationship with the Emerging Powers** (Russia already being part of the G8). By establishing a structured forum for on-going dialogue with the new powerhouses in the global arena they recognized the legitimacy and efficiency deficit of the old world order and the need for restructuring the existing Global Governance architecture (Cooper / Jackson 2007).

Emerging Powers have a **dynamic identity**: their position in the international system is changing as their power grows, while at the same time their capacity to shape outcomes increases. That means, they carry some potential to challenge the hierarchy of the system in which they exist (Macfarlane 2006). At the same time, there is ample evidence from all emerging powers of **unhappiness with the existing structure of international politics**. That raises the question whether they will overthrow the existing international order or become part of it (Ikenberry 2008).

Will they be **followers or maintainers of global norms and regimes or contenders to change the Western shaped international order**? Will the shift of global power lead to an end of the predominance of the liberal “Greater West” and initiate a new – perhaps Asian centred - world order? What consequences will the rise of Emerging Powers have on the sense of Global Equality and what will be its impact on existing World Inequalities?

II. How solid is the Economic Power Shift?

In economic terms, the world has become increasingly multi-polar. Driven by strong growth rates, the Emerging Powers **share of the global economy** increased from 21.5% of GDP (PPP) in 2000 up to 26.5% in 2006 - according to data of the 2007 IMF World Economic

Outlook. Since 2000, these countries contributed roughly one third of global growth in US dollar terms.

Although the *recent release of new estimates of purchasing power parity* (PPP) announces a significant decline of GDP in some emerging economies – notably China, India and South Africa - the trend of economic power shift persists. The updated statistics may tell us that China does not account for about 15% of world economy (in PPP), as economists thought until recently, but only for just under 10%. But this doesn't change the trend. According to the updated figures, **the share of Emerging Powers in global GDP is still high at 22.79%.**

Shares of Global Gross Domestic Product (in PPP)

	old release in %	new release in %
Brazil	2.61	2.88
China	13.59	9.70
India	6.05	4.26
Mexico	1.79	2.14
Russia	2.66	3.09
South Africa	0.89	0.72
<i>Emerging Powers</i>	27.59	22.79

Source: IMF 2007; World Bank 2008

Beside GDP shares, there is more data supporting the growing economic weight of emerging countries: their *share of global trade* increased significantly. The BRIC's share of global exports rose from 9.4% (2000) to 14.6% in 2006, the share of global imports from 5.6% to 9.59%. Over the past 15 years, total trade as a proportion of gross domestic product grew by over 50% in Russia, nearly doubled in China and more than doubled in Brazil and India (OECD 2007). Especially in China, there has been an „explosion“ of trade surpluses with industrialised countries.

Emerging economies have not only become major global trading partners, they are as well *primary recipients of financial flows*. Foreign Direct Investment (FDI) to Emerging Economies increased significantly since 1985, with China and India being the main beneficiaries.

According to IMF (2007) data, the BRIC countries are among the ten countries with the largest *foreign exchange reserves*: China holds the biggest share with 1.2 trillion; reserves in China, Russia, India and Brazil taken together account for more than one third of global reserves. The majority of these reserves are invested in industrialized countries' bonds. For instance, China invested about 70% of its currency reserves in US bonds.

But, in the meantime, part of the foreign exchange reserves of Emerging Powers is concentrated in state-owned investment funds, so-called *Sovereign Wealth Funds (SWF)*. These SWF are already managing assets of more than 3 trillion USD, and their amount is projected to grow within in the next ten years to 15 trillion USD. Thus, the emerging economies have become dominant in *asset accumulation* (Kern 2007).

Economic weight of the new powers is also reflected on the *labour market*: The four BRIC countries represent today 45% of world labour supply, compared with less than 20% for the 30 OECD countries (OECD 2007).

Besides this strong evidence that the shift of economic power to the emerging economies is solid, it is important to keep in mind that the future economic rise of Emerging Powers will depend on the capacity of these countries to remain on a *steady growth track*. Each country faces significant challenges in this regard: institutional weaknesses, growth dependency on one sector of the economy, external shocks.

China's growth, for instance, is largely driven by exports and foreign investment. "Accounting for a share of 3% of the overall number of Chinese business active in China, in 2005 foreign corporations contributed 57.3% to China's total volume of exports, and their share of high-tech products even reached a level of 87.9% of the country's export output. In 2005 foreign firms accounted for 28.55% of the country's net industrial product ,..." (Reddies 2007).

In *Russia*, the share of oil and gas in GDP has increased from 12.7% in 1999 to 31.6% in 2007; natural resources account for 80% of exports.

There are also doubts with regard to the supposed *decoupling* between the growth momentum in emerging economies and economic performance in industrialized countries. The assumption behind "decoupling" is that a recession in the industrialized world would not have significant negative effects in emerging countries. The current signs for a coming recession in the US economy and its expected impacts of the world economy indicates, that it may be too early to speak of „decoupling“ (UN 2008).

III. Emerging Powers and Global Inequality

There are widespread expectations that rapid development in Emerging Powers will have *positive spill-over effects to the global economy, in particular that it will produce benefits for developing countries and the poorest citizens of the world*, thus countervailing Global Inequality (Le Pere 2005). It has been often quoted that progress in reducing extreme poverty in accordance with the UN Millennium Development Goals (MDG) is mainly a result of the strong growth in China and India. However, there are also many observers who believe that *inequality has increased both within and across emerging economies*, causing insecurity, job losses, lack of social protection and existential angst. Is there any evidence for the expectation that economic success and political rise of Emerging Powers is accompanied by an equal jump in human development?

III.1. Does the rise of Emerging Powers have an impact on their internal equality?

Emerging Powers are often referred to as the main contributors to global GDP from the developing world. The question remains, however, whether the economic momentum in these countries will translate into human development.

There is no doubt that high and **sustainable growth rates in emerging countries – above all in China, India and Russia – helped to reduce poverty significantly**. China succeeded in bringing down its poor population from about 50% at the beginning of the 1980s to 15% in 2004, with a significant slow down in poverty reduction in the new millennium. But despite dynamic growth, individuals in the Emerging Powers are and will still likely to be poorer on average than individuals in the industrialised countries. Today 40% of the world's poor (those living on less than USD 2 a day) live in emerging economies.

In every Emerging Power, considerable shares of the population still live in **extreme poverty**: in India 34.7%, in China 16.6%, South Africa 10.7%, Brazil 7.5%, Mexico 4.5% and Russia 2% (Social Watch Annual Report 2007). While GDP/PPP per capita (Data drawn from HDR) shows for South Africa, Russia and Mexico a relatively high level, it is medium in Brazil and China. India's GDP per capita is still very low and has been increasing slowly.

Emerging Powers share the **challenges of rising inequality**: Unlike earlier experiences with the "Asian miracle" (Japan, Taiwan, South Korea) which were characterized by relatively low inequality, the rise of the new powers is accompanied by widening internal inequalities, with attendant economic, social and political problems. The economic momentum in these countries, so far, did not translate in improved welfare for all sectors of the population.

Gini Indexes are high for all *Emerging Powers*: Brazil (57.0), South Africa (57.8), China (46.9), Mexico (46.1), Russia (39.9) and India (36.8). **Tendencies towards a widening gap in income contribution in the most dynamic Emerging Powers China and India are alarming.**

With regard to **China**, the output of economic growth is not distributed fairly. Economic progress is accompanied by expanding social inequalities. The Gini Index is increasing rapidly: from 44.0 in 2000 to 46.9 in 2004, and regional disparities have reached an alarming level. Just to illustrate these disparities: Per capita GDP in Shanghai is 13 times that of the western province Guizhou (Justin Lin / Peilin Liu 2005).

Per capita income (PPP USD)

	HDR	World Bank (PPP new release)
Mexico	10,751	11,317
Russia	10,845	11,861
Brazil	8,402	8,596
China	6,757	4,091
South Africa	11,110	8,477
India	3,452	2,126

Source: UNDP Human Development Report 2007/2008; World Bank 2008

Gini Index

	2000	2004
Mexico	49.5	46.1
Russia	-	39.9
Brazil	58.0	57.0
China	44.0	46.9
South Africa	57.8	-
India	32.5	36.8

Source: UNDP Human Development Report 2007/2008

The share of wages in GDP has declined constantly in the course of China's market-oriented reform process – from 16% in 1989 to 12% in 2003. In important ways, the rise of a new middle class in the coastal regions has taken place at the expense of the roughly 130 million migrant workers, who have largely been deprived of their social and legal rights. At present, the rural population (of about 700 million persons) has little or no access to China's new prosperity. Increasing income inequality is responsible for a noticeable slow down of poverty reduction in the last decade. Due to the widening gaps between rich and poor people as well as between prosperous regions at the coast and marginalized provinces in the inlands, China is facing increasing social unrest. The Labor Ministry predicts larger-scale social unrest if the

country does not succeed in finding sustainable solutions to the inequality challenges. So far, only 10 percent of the population is covered by any form of social security; 75 percent of the population is without health insurance (Reddies 2007).

Despite continuing challenges of inequality, *Human Development Indexes* improved in recent years in most Emerging Powers: Mexico (0.829) is at the head, followed by Russia (0.802), Brazil (0.800), China (0.777) and India (0.619). But in South Africa HDI changed for the worse: from 0.745 in 1995 to 0.674 in 2005.

Human Development Index 1995-2005

	1995	2000	2005
Mexico	0.786	0.814	0.829
Russia	0.771	0.782	0.802
Brazil	0.753	0.789	0.800
China	0.691	0.732	0.777
South Africa	0.745	0.707	0.674
India	0.551	0.578	0.619

Source: UNDP Human Development Report 2007/2008

China and India are still not advancing human development sufficiently; they need to increase investments in education and health to achieve the MDG's. In Mexico, Brazil and South Africa inequality remains high and access to education and health is limited to a small percentage of the population (Hackmann 2007).

III.2. Does the rise of Emerging Powers benefit poor developing countries?

There are vast expectations that poor developing countries could benefit from the growth opportunities related to Emerging Powers. However, evidence is ambivalent.

In recent years, *balances of trade* of developing countries have been strongly influenced by a decline in the prices of manufactured goods and significant increases in the prices of commodities. Both trends are related to economic developments in Emerging Powers. On the one hand, the economic expansion of huge countries, such as China and India, has spurred the demand for energy and industrial raw materials, with a positive impact on the terms of trade for exporters of fuels and mining products among the developing countries.

On the other hand, growing competition in labour-intensive manufacturing is responsible for a persistent deterioration of terms of trade of exporters of manufactures among developing countries (UN 2008).

In *Africa*, it can be observed that the *rise of China and India reduces Africa's dependence from traditional trading partners in the North. Trade between Asian Emerging Powers and African developing countries sharply increased in recent years.* Above all, sub-Saharan commodity producers benefit from higher global demand for their exports and from improved terms of trade. Today, by far the most important African export products in trade with China are raw materials, above all oil, with a share of about 62% of all Chinese imports from Africa. This clearly improved export opportunities and the economic situation for several countries for a short time.

However, *in the long term the dependence on the need for resources in Emerging Powers may lead to a raw materials gap in African economies and impede the much needed*

diversification of their economies. And on the other hand, India and China are encroaching in low-tech, labour-intensive sectors, sectors where some African countries had just started to be globally competitive, and now risk losing their export opportunities again.

China has a similar impact on *Latin America*: The overall trade balance of Latin America with China is positive. Nevertheless, considerable differences between Latin American countries exist. Those countries, which expanded exports of primary products to China, enjoy trade surpluses, while those who compete with China in labour-intensive manufacturing have experienced negative balances of trade. Several observers have expressed that China's rise is leading to a "*deindustrialisation*" in the region – with potentially negative effects on technological development and long-term growth (Jenkins/Dussels 2007).

Ambiguous consequences of China's economic rise are also prevailing in its *Asian neighbourhood*. The more advanced Asian economies - e.g. Hong Kong, South Korea or Singapore – have benefited from complementarities with China. They are exporting sophisticated intermediate goods such as parts and components to China, which then process them for exports to the USA and Europe (OECD 2007b).

On the other hand, poorer countries of the Mekong sub-region are selling mostly raw materials and resource-based products to China. This *resource-based export growth* can only be translated into poverty reduction and improved welfare in these countries if the issue of sustainability of resource extraction is addressed – a challenge for the export countries as well as for China (Humphrey / Schmitz 2007). Generally, it appears that China's growth raises competitive pressures on the Southeast Asian labour markets.

Emerging Powers have changed the *geography of commodity trade*. Their high economic growth rates have stimulated global demand for resources, causing thus a boom in commodity prices that benefits poorer producing countries. From 2000 to 2007, prices for energy resources increased by about 150%, those for iron ore by 200%. Today, China is the world biggest importer of resources; but just as important is the demand from other fast-growing emerging economies like India, Russia or Brazil.

Emerging Powers' share in *Greenhouse Gas emissions* increased from 26.5 percent in 1990 up to 31.3 percent in 2004 – while the OECD share decreased from 49% to 46%. That means that although the mayor responsibility for climate protection lies with the industrialized countries, *Emerging Powers today share an important part of that responsibility. To assume this responsibility within the current post-Kyoto process will be crucial for the success to control climate change and to limit its negative effects for developing countries.*

Emerging Powers are increasingly becoming an *important source of capital* for other developing countries, thus in part compensating for lower capital inflows from the OECD countries. This increase of outward investment is based on growing accumulation of foreign exchange reserves. Against this background, Emerging Powers in recent years became more visible in the global arena as „*emerging donors*“. Among the 56 donor countries listed by the OECD-Development Assistance Committee (DAC), 18 are from the South.

The **most striking example of an „emerging donor“ is certainly China** and its expanded engagement in Africa. An important demonstration of the new „strategic relationship“ between China and Africa was the China-Africa Summit in November 2006 in Beijing. The „Beijing Declaration“ adopted there includes a comprehensive package of concrete investment and development aid commitments on the part of the Chinese. Chinese

development aid to Africa is supposed to double by 2009. Nevertheless it is still significantly below the level of Western nations and often more symbolic – what does not exclude that it is for some countries substantial.

As an „**emerging donor**“ **China** is distinguished from Europe and the USA in terms of the principle of non-interference in internal affairs. Thus, in contrast to the Western donor countries, China imposes *no conditions* on the recipient country regarding criteria such as good governance, human rights or social and environmental standards (Hofmann et al 2007; Gu et al 2007). This difference makes Chinese aid more attractive for some developing countries, meanwhile Western experts advert to the risk that not using conditionalities could postpone necessary adjustments (Manning 2006).

Brazil has chosen another way to influence international development policies. With its initiative to create and its support for the *International Action Plan Against Hunger and Extreme Poverty* it offers an innovative financial scheme to raise the resources necessary to achieve the MDGs. One of its most meaningful outcomes so far has been the promotion of a taxation of airline tickets on a global scale to help the fight against Aids and “poor man’s diseases” (Biato 2008).

Emerging Donors mean also *emerging creditors*. In this regard it is noteworthy, that the Asian giants direct their lending mostly to resource-rich countries, rather than to the beneficiaries of Western debt-relief. The vast accumulated *reserves* are rather channelled to industrial countries than put to work at home or within the regional neighbourhood for developing purposes.

III.3 Do Emerging Powers affect welfare and equality in industrialized countries?

Adverse effects of globalisation on incomes and income distribution in industrialized countries have led to the awareness that open trade in a world characterized by the rise of new economic powers can produce negative results on welfare in the developed countries. Economists like Nobel Laureate Paul Samuelson are questioning whether globalisation would continue to be beneficial for all economies. So, **the transformation of the economic relationship between advanced industrialised countries and Emerging Powers is fostering signs of „globalisation fatigue“ in the industrialised countries.** The political support for open trade and multilateralism can no longer be taken for granted (Pisani-Ferry 2005).

But, is there any *evidence* that the adverse effects of globalisation in industrialized countries are related to the rise of new powers?

A clear impact can be observed on the *Global Labour Market*: As a result of the integration of China, India, and the formerly socialist economies into the global economy, the effective global labour force increased dramatically since 1980. These new entrants to the global economy added 1.47 billion economically active people to the global labour pool. That is a doubling of the global labour force. And each year, that labour force will swell by about 50 million additional people – a big share of them living in the emerging countries. These changes have produced a huge surplus in the global labour market supply. There can be no doubt that global competition for jobs will become fiercer in the future and exert pressure on wages and incomes as well as social standards (Adam 2007; Freeman 2005).

The growing pool of labour is accessed by the advanced industrialized countries through imports of final goods, offshoring of production, and immigration. With the growing integration of emerging economies in global value chains, more manufacturing has moved from high-income industrialised countries to emerging economies. **Offshoring** has converted in *a source of vulnerability for some sectors of the working force in developed economies, particularly for low-skill workers*. It contributed to structural unemployment in industrialised countries. Although offshoring has received much attention, its dimension is relatively small: Offshore inputs make up only about 5% of total production inputs in industrialized countries (OECD 2007a).

OECD countries still dominate **global manufacturing**, accounting for almost 80% of global value added. But emerging economies are moving up the value chain and thus begin to compete directly with OECD countries. Competition for work is no longer confined merely to unskilled labour, but, as a consequence of advances in education, training and productivity in emerging economies, is increasingly extending to higher skilled employment and middle-income groups (Adam 2007).

The imported technology embodied in FDI is changing the trade schemes of emerging economies and contribute to higher technology-intensive industries. Following the offshoring of manufacturing, **high-skilled business functions like R&D are no longer immune to being outsourced**. Large increases in foreign R&D in particular in China and India, have been observed (OECD 2007b).

Wage inequality has been rising in most OECD countries. OECD research acknowledges that growing trade with emerging economies *could* have played a role in causing earnings inequality to rise in OECD countries, by depressing the wages of low-skill workers; however the effective contribution is estimated to be modest (OECD 2007a). With regard to **Labour and Social Standards**, it must be assumed that the increasing scale of international capital investments in advanced industrialized countries originating from Emerging Powers like China or Russia will have an impact on the social system and labour and social standards in the former (Adam 2007).

On this background, *Emerging Powers* are more often perceived in the advanced industrialised countries as **“challenger states”** (Steingart 2006). Under the flag of **“Economic Patriotism”**, latent protectionist tendencies are rising to the surface and the dynamics of liberalization of trade and capital investment are losing momentum. These reactions are fuelled by growing public fears about globalisation in industrialised countries. Public support for open borders is weakening (Warwick Commission 2007).

The boosting currency reserves in Emerging Powers and the increasing investment activities of **Sovereign Wealth Funds** are giving rise to tensions in world trade and are fostering protectionist reflexes in industrialised countries. The growth dynamic of the SWF business and the tendency to transfer the reserves accumulated in SWF from foreign bonds into potentially higher-yielding assets, particularly into assets on private corporations of industrialized countries, in conjunction with the **emergence of new players – mainly China and Russia** – has raised concerns over a potential sale of strategic assets, a transfer of vital industrial knowledge, or issues of public security and the possibility that SWF's of Emerging Powers could gain controlling positions in firms of western countries (Truman 2007).

IV. Do Emerging Powers contribute to a more balanced and inclusive, less asymmetric world order?

The **importance of the *Emerging Powers*** as a particular group of countries is **underscored** not only by the logic of global economics but also **by their capacity to influence the global institutional order**. As it has been said above, *Emerging Powers* have increasing influence in shaping global agendas and the potential to challenge the hierarchy of the existing international order.

At present, we are witnessing a process of ***Global Reordering***. Since the end of World War II, the West has been the geopolitical centre of gravity and the modernizing vanguard of the global system. Together, the United States of America and the Western Europe have laid down the rules and institutions of the post-war international order and that what we have come to name the Global Governance System: the United Nations, International Monetary Fund, the World Bank, the World Trade Organisation and other institutions.

The **USA and Western Europe** have been not only the **creators and managers of this Global Governance System**, but also its **chief beneficiaries**. This western shaped international order is a hierarchical asymmetric political system that reflects the interests of the dominant states. No wonder thus, that **Emerging Powers from the South often consider existing international fora “to be largely irrelevant to their needs, catering foremost to Western-driven agendas”** (Biato 2008).

But this is changing. The ***diffusion of global economic power*** to the mayor developing countries has altered the nature of the power equation in the contemporary international order. *Emerging Powers* have now the potential to challenge the current modalities of globalization and the Global Governance System. **What is at issue is not only the structure of the global order, but the function that global governance serves**. The New Powers can help to rethink the current *rules* of globalization and the *benefits* of the global order (Culpeper 2007). **The question is whether the Emerging Powers will be followers or maintainers of global norms and regimes or contenders to change the Western shaped international order. It looks like while maintaining the world order, they are seeking to reform it** (Pang Zhongying 2007; Salma Bava 2007).

Some observers belief that present shift in global power equation is a ***zero-sum game***: The empowering countries on the rise means disempowering countries on the wane. In every international organization where emerging powers will have more influence and voice, the role and influence of western countries will decrease.

Drezner (2007), for instance, asserts: „Power is a zero-sum game, and so any attempt to boost the standing of China, India, and other rising states within international organizations will cost other countries some of their influence in those forums. ... European countries stand to lose the most in a redistribution of power favouring countries on the Pacific Rim“ (Drezner 2007, 44).

Apparently, the **“*Multilateral Moment*“** of the 1990s is over. At the present time, the general trend in international relations is that coordinated solutions to global challenges are no longer in vogue. Multilateralism is in crisis today (Ortega 2007). Vis-à-vis this situation, ***Emerging Powers* show a strong commitment to maintaining a global order based on multilateral cooperation**.

In recent years, the *G 8 as an informal global steering committee* has come under stronger critics. The G 8 *Outreach Summits*, starting at Evian in 2003, is a reaction to overcome the deficits of legitimacy and effectiveness of the G 8. The dialogue with the G 5 reflects a desire to engage with a wider audience. However, from the perspective of the G 5, the Outreach exercise is little more than a side event, almost an afterthought, given that the G 5 is excluded from the main deliberations. Although the last year at *Heiligendamm* embarked *Dialogue Process* has established the groundwork for a more institutionalised exchange, it will only be meaningful if the G 5 is fully involved in setting the agenda and not just sit in G 8 talks covering a few pre-established themes. And, the Emerging Powers insists that the Outreach Summit, as well as the G 8, should reframe from offering themselves as surrogates for failed multilateralism (Biato 2008).

Furthermore, *Emerging Powers* present themselves as *advocates for a more just and equitable global order* which is less subject to the interests of the rich industrialised countries and based more on international compromise and democratic-decision making. That brings Emerging Powers to claim a paradigmatic shift in the global economic governance discourse.

Major changes can be observed above all in the *world trade system*. There the previous dominance of the USA and EU has given way to a multi-polar system in which Emerging Powers have become strong negotiators and asserted greater influence over the trajectory of the multilateral trading system. The *new geography in trade* is the background for a push towards „*economic decolonisation*“ – as Pascal Lamy named it – in trade relations.

Brazil and India have assumed a *policymaking leadership* among developing countries and **taking the lead to achieve a normative shift from promoting liberalization to fostering development in trade negotiations**. They have established themselves as “**process drivers**” what is reflected by the transformation of the old decision making centre (with exclusive representation of industrialized countries) into the new G4 confirmed by the US, the EU as well as Brazil and India.

India and Brazil are also the protagonists of the G 20 and the NAMA 11 – *coalitions between emerging economies* and developing countries that marked a change in trade diplomacy such that industrialized countries can no longer set alone the terms and conditions of negotiations (Manz 2007).

However, the growing influence of Brazil and India in trade negotiations has lastly been accompanied by a *degree of dissatisfaction among some weaker developing countries*, which are beginning to question the ability and willingness of these two mayor powers to represent fully their interests. According to estimates of the World Bank and the Carnegie Endowment, in a probable conclusion of the ongoing Doha Round the winners of further trade liberalization would be in agriculture Brazil and in the industrial goods sector, aside from the advanced industrialized countries, China and India, while the poorest countries will be faced with export losses in both sectors (Polaski 2006).

The influence of *Emerging Powers* is not confined to the global trade regime. They are as well challenging the *Governance Structure of the Bretton Woods Institutions*. Because of the weighted voting system, these institutions are viewed as tools of the developed countries. At present, the International Monetary Fund (IMF) as well as the World Bank is suffering a profound crisis of legitimacy and effectiveness. In the meantime, both international bodies are referred to as “**sunset organisations**” (Mahbubani 2008).

The *crisis of the IMF's legitimacy* among emerging and developing countries has led to less reliance on the Fund. They are turning its back on the policy advice of the IMF and refrain from its lending programs. In particular, the shift of political power is apparent in the assertiveness by which *governments in Asia and Latin America are establishing regional financial cooperation and self-protecting mechanisms against potential future crisis*. The privilege by which industrial countries have determined the course of financial globalisation through its voting majority in the governing board of the IMF has become an anachronism to the realities of today's world economy. However, the initiatives in Asia (Chiang Mai) and Latin America (Banco del Sur) still not have succeeded in building up relevant regional mechanisms that could serve as substitute for the lender of last resort function of the IMF.

Vis-à-vis the crisis of legitimacy and effectiveness, *Emerging Powers* are reclaiming better representation in both international bodies. *The end to hereditary on the top posts at the IMF and at the World Bank* would be an important – even more symbolic - step in ensuring that *Emerging Powers* have a greater say in decision-making. The recent appointment of the Chinese economist Justin Yifu Lin as Chief Economist of the World Bank shows in this direction.

Another step would be a *reform of the voting power* although such an overhaul of the voting power would threaten to *erode the western predominance* in the fund. In the case of the IMF, a timid reform has been started at the annual meeting of September 2006 in Singapore. However much keeps to be done: At present, the six big Emerging Powers possess only 13.1% of the quota shares – compared with 17.1% for the United States and 32.4% for the European Union. A more ambitious reform will be needed if the IMF is to expand its monitoring of the global economy, as suggested to reinforce its relevance. Above all, **European countries are under pressure** to reduce their voting power and presence in the Governing Board.

But not only the Governance Structure of the international order is challenged. The ascent of new powers is also likely to be followed by their *demand to revise the set of principles and values that are at present prevailing in the Global Governance System*. The rise of Emerging Powers presents a *challenge to ideational power* of the western industrialized countries. Above all, it is a *challenge to the Western development model* by offering an alternative view of what development is and how to achieve it (Gu et al 2007). In many developing countries, China's development model is regarded with great respect. It has "global appeal" by proving that authoritarianism can be successful (Buruma 2008).

Furthermore, some Emerging Powers seek to create a *new multilateralism* – like the IBSA initiative of India, Brazil and South Africa – as well as South-South alliances on development issues. *IBSA* presumes to be a value-driven club of countries committed to democracy, peace and development. In contrast to the more traditional southern alliances – as the Non-Alignment Movement or the G 77 -, IBSA is not a defensive coalition, but a proactive rule-maker within the existing international system. It has shown some influence in developing policies and trade policies. Nevertheless it should not be overseen, that IBSA is not foreign policy priority for any of the member countries. Beside the positive vibrancy of its commitment and faith in multilateralism, it cannot yet be considered an international actor.

The *Shanghai Co-operation Organization (SCO)* is another example of an alliance between Emerging Powers. With China and Russia being its dominant actors, the SCO is *perhaps the most potentially powerful regional alliance outside the Western World*. In recent years, the SCO has becoming more activist and willing to balance Western power. Both, China and

Russia are highlighting the principle of non-interference and are reluctant to linking sovereign rights to global standards of human rights. It can be argued that the SCO community endeavoured to promote not only state security and respect for sovereignty among the membership but also “*regime*” *security*. In recent years, differences have grown between the West and the SCO on matters related to democratisation, human rights, energy and greater geopolitics (Lanteigne 2006).

This developments demonstrates the risk that, if the emerging powers are not integrated in the international order, they could create international organizations that clash with the interests of industrialized countries.

Emerging powers are heterogeneous. Their potential to shape global policy differs a lot. Only China may have the potential to compete directly with the old powers and to become one of the Big Three’s, which will dominate the newly shaped geopolitical marketplace. But, as these superpowers will have to look for support and loyalty, the other emerging powers will shape the world’s balance of power as much as the superpowers themselves will (Khanna 2008).

V. Political Challenges

The lack of reform of the Global Governance System - or the slow pace of it – is an incentive for the Emerging Powers to explore alternative routes. Thus, the reform of the global order and the rebalancing of power it implies are not only required for the sake of fairness. “More importantly”, as Jean Pisani-Ferry (2005) stated, “they are necessary to ensure a sufficient degree of *ownership in the multilateral system*”.

Rather than to postpone them, the Western Powers should accelerate reform to create conditions for a strong commitment to multilateralism. The challenge is to make *integration and accommodation to the “western” shaped international order* for the rising states more likely than radical transformation (Ikenberry 2008). The establishment of a high-level Dialogue Process between industrialised and emerging countries, as embarked at the G8 summit 2007 in Heiligendamm, is an important step in that direction. But it should by no means be promoted as an alternative to multilateral cooperation within the UN system.