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"Ένα Υπόμνημα Πολιτικής για το 2020, Μοιράζοντας το Βάρος της Παγκόσμιας Ηγεσίας".

Συγγραφέας/Author: Δρ. Σωτήρης Σέρβος/ Dr. Sotiris Serbos

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Lay-out and overview: Mr. Zenonas Tziarras.

Βιογραφικό Συγγραφέα/ Author Biography:

Ο Dr. Σωτήρης Σέρβος είναι Λέκτορας Διεθνούς Πολιτικής στο Δημοκρίτειο Πανεπιστήμιο Θράκης, στην Ελλάδα. Γεννήθηκε στη Θεσσαλονίκη το 1976, αποφοίτησε ως σπουδαστής πλήρους υποτροφίας του Κολλεγίου Ανατόλια. Σπούδασε Διεθνείς Σχέσεις στο Πανεπιστήμιο Μακεδονίας (BA), το London School of Economics & Political Science (MSc) και το Εθνικό & Καποδιστριακό Πανεπιστήμιο Αθηνών (PhD). Έχει εργαστεί ως ειδικός σύμβουλος / εμπειρογνώμονας στα Υπουργεία Εθνικής Άμυνας (Ινστιτούτο Αμυντικών Αναλύσεων), Εξωτερικών (Κέντρο Ανάλυσης και Σχεδιασμού), Οικονομίας & Οικονομικών (Μονάδα Οργάνωσης της Διαχείρισης για Κοινοτικό Πλαίσιο Στήριξης), Μακεδονίας & Θράκης και το Πανεπιστήμιο της Σέφιλντ (Κέντρο Ερευνών Νότιο-Ανατολικής Ευρώπης). Πριν την ένταξή του στο Δημοκρίτειο Πανεπιστήμιο, δίδαξε ως επίκουρος στην Σχολή Δημόσιας Διοίκησης και Πολιτικής Επιστήμης στο Ελληνικό Ανοικτό Πανεπιστήμιο και Διεθνείς Σχέσεις στο Αμερικανικό Κολλέγιο της Θεσσαλονίκης. Οι δημοσιεύσεις του επικεντρώνονται σε διεθνείς οργανισμούς και την ευρωπαϊκή ολοκλήρωση με έμφαση στην ανάλυση εξωτερικής πολιτικής, μέσω της πολιτικής διεύρυνσης της ΕΕ στη Νοτιοανατολική Ευρώπη (Τουρκία, Δυτικά Βαλκάνια). Τα ερευνητικά του ενδιαφέροντα περιλαμβάνουν, επίσης, την ελληνική και τουρκική εξωτερική πολιτική.

Dr. Sotiris Serbos is Lecturer in International Politics at Democritus University of Thrace, in Greece. Born in Thessaloniki in 1976, he graduated as full-scholarship student of Anatolia College. He studied International Relations at the University of Macedonia (BA), the London School of Economics & Political Science (MSc) and the National & Kapodistrian University of Athens (PhD). He has worked as special advisor/expert in the Ministries of Defense (Institute for Defense Analyses), Foreign Affairs (Centre for Planning and Analysis), Economy & Finance (Management Organization Unit for Community Support Framework), Macedonia & Thrace and the University of Sheffield (South-East European Research Centre). Before joining Democritus University he taught as adjunct faculty, Public Administration and Policy at the Hellenic Open University and International Relations at the American College of Thessaloniki. His publications concentrate on international organization and European integration with emphasis placed on foreign policy analysis via the EU's enlargement policy in South-Eastern Europe (Turkey, Western Balkans). Research interests also include Greek and Turkish foreign policy.

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A Policy Note Towards 2020; Sharing the Burden of Global Leadership

by Dr. Sotiris Serbos[*]

The aim of the following policy outline is to present through a comprehensive methodology the deterministic way for a series of developments that will occur at the global level. There is a necessity coming out of these processes and that is the one responsible for major issues that will occur in the years to come, independent of medium term trends. The main rational derives from objective views which have a quite strong economic and social background. There are two issues or scenarios for the international community:

a) Long term scenario (where the rationale is quite clear)
b) Short term scenario (where the argument is more complex)

Long-term:

It is a fact that developing countries headed by the BRICS (which comprise 40% of world's population and 18% of global GDP) will reach a point by 2020, where they will contribute more than two-thirds of global development by (according to consensus forecasting by the UN, IMF and the World Bank). The reasons that indicate how the 'development game' will play out this time in a quite different format compared to the past are the following ones.

1. According to demographic trends, the dependency ratio is declining.[1] We refer to developing countries in general and as a whole, where up to now populations are excessively young. For example, China's population is relatively aged and the same goes for Russia. On the

[*] Lecturer in International Politics, Democritus University of Thrace, Greece (sermpos@socadm.duth.gr)

[1] The percentage of the population which is dependent to be taken care of by others.

other hand we observe countries like India, Turkey and Indonesia that have very young and dynamic populations. Subsequently, as these populations enter the labor force they will create extra income, alleviating their families and allowing them the opportunity to consume more.

2. The second trend is related to the rising of middle strata in the developing world, which will progressively come to comprise 40% of global population.
3. Most of these countries have established solid economic bases for self-sustained future growth.

Consequently, the future of global economic growth rests in these countries and this reality actually constitutes the next bonanza for MNCs (especially the ones originating from the West) along with a unique opportunity for western economies to sustain descent development rates, despite the maturity that their economies have reached along with low growth rates. The above mentioned observation unleashes a dooming reality deriving from the long term nature of the economic crisis.

For all this to happen, developing world will need to prove that it can progress and develop through its own internal forces and with less dependence coming from the West's exports. Namely to secure leverage through the steadily increasing purchasing power of its domestic population. As a result of this process, developing countries will be in a position to attract investments from the West, where this time they will be approached as large markets for their products and not as cheap labor export hubs.

Short-term:

In the meantime, the world economy will face the risk of transition to the above described long-term state (2020); when these economies will need to fully effect their transformation, while consumer demand in western economies will be deficient, risking weak global growth and economic instability, and above all geopolitical tension.

Today the world is divided amongst large creditor economies with massive external surpluses -these are mostly developing economies plus Germany and Japan- and large debtor economies with massive external deficits and these are mostly advanced economies primarily in Europe but predominantly the US.

As the debt in these economies became unsustainable and the countries involved had to start saving, creditor economies could not sell their exports. As a result the global economy came to a standstill. Returning to balanced growth will happen inevitably, in accordance with long term trends (where developing countries will grow by themselves through an endogenous process which will in any case happen).

Essentially the crisis' resolution fits with long term trends, which point out that a reversal of roles will come up (developing countries will grow with their own demand and their own consumption, allowing the West to become an exporter in these countries).

However, there are two ways in which the resolution of the crisis can happen. The international community will have to choose between the difficult or the easy one. The good way is through global policy coordination, where developing economies follow expansionary policies to boost wages and domestic demand along with letting their currencies appreciate. Thus, sustaining global growth as the western world inevitably continues to save in order to repay its debt.

The bad way is a policy coordination does not happen at all, as it has mostly been the case up to now. In this scenario, creditor economies are finding that there is simply not sufficient global demand for them to grow externally. Thus, market driven economic forces will push them to become more internally dependent. Unfortunately, leading to global economic antagonism and protectionism (what we call a beggar-thy-neighbor policy[2]).

Geopolitics and the need for global governance:

Let us take a vivid example. The US is asking or even pushing China to appreciate its currency and raise wages and domestic demand in general, so that the US can grow by expanding its exports and thus, as a result being able to reduce its deficits, as well as repaying its debts (25% of which are owed to China). However, China refuses to play along since the Chinese are not willing to endanger their future, as number one global exporter. A development that -amongst other issues- has upgraded China's geopolitical status. The US retaliates by printing dollars which raise global inflation via commodity prices (oil and raw materials) causing inflation in China. It is this type of risky conflicts, that the new US leadership following the coming November Presidential elections will need to manage.

[2] Policies and practices that harm the economic interests of a country's trading partners (i.e. restricting imports by quotas or raising tariffs, currency devaluation or appreciation).

New global governance:

Global challenges are already shifting the centres of economic power and redirect the flow of political authority and influence. US policy-makers understand the importance of resisting the temptation to overcome the complexity of the modern world by simply dusting off and adopting old attitudes and modes of action. The issues raised in the context of globalization require new policies between the power centers of a multipolar world.

In this respect, we talk about institutionalized participation of developing countries in relevant international institutions. There is a quite clear and continuous growing need for even partial policy coordination (like in the case of 2009. It happened at least for a while). The US administration acknowledges that *"international institutions must more effectively represent the world of the 21st century, with a broader voice -and greater responsibilities- for emerging powers, and they must be modernized to more effectively generate result on issues of global interest*[3]*."* Essentially, the power of the West continues to lie in the reality that it will catch up and be the one leading the global revolution in entrepreneurial organization along with the exploitation of new technologies. These will be exceptionally important evolutions that will not take place in the long run.

In general, the opening of a more united, coordinated and decisive Western community towards non-western countries, could consist the core for shaping the new geopolitical architecture. In this course action, the future role of developing countries will be significantly elevated by responsible participation as full-fledged partners in global undertakings. In parallel, the West can positively and significantly contribute in an international

[3] The White House, *National Security Strategy*, 27 May 2010.

cooperation scheme for sustainable global development which will include investments in the development of global infrastructures, reforms for institutions of international security, development and distribution of natural resources. Last but not least, taking into consideration current trends which require positive compromises via win-win strategic alliances, overcoming a traditional rationale namely the 'balance of power' approach, might prove more than useful in order to sustain the course of globalization's further deepening.

The G-20 is a first forum, an acknowledgement along with a 'confession' of an existing reality. However, more steps through the establishment of solid bases will be needed to effectively move forward with this acceptance. A number of pending issues are still at stake. For example, how will the G-20 transform itself in a flexible institution of global governance, that will amongst others structurally set itself in the balance of power domain of other international financial institutions like the IMF (i.e. quota share, voting power; where developing countries are asking from the West to become more answerable when it comes to IMF resources for bail out funding). We should not undermine the fact that these countries are now major contributors. The same goes for the World Bank's structure and decision-making mechanisms. Decisions are not taken any more by the G-8 with its leverage seriously diminishing. At the same time BRICS summits attract more and more political along with geo-economic significance.

In light of the above, as the West should properly adjust itself in the representation domain of global governance, the same goes for developing countries which should in turn, learn to act as responsible leaders and not as simple regional powers in global undertakings. In this respect, developing countries must prepare themselves and work in a responsible and constructive manner (BRICS, tiger economies, Turkey) in the global environment (i.e. China's position in international economy where it pursues command economy tactics to sustain its competitiveness.). As far as the Americans are concerned, although Washington will be compelled to follow cooperative policies through constructive engagement and granting power in the developing world, in effect the US will be the actor establishing the new 'rules of the game' along with setting principles and limits on how developing countries properly manage their growing power and assist them accordingly.

Enter the US:

In their analysis, the Americans present certain difficulties when it comes to understanding key issues. This is further exacerbated through and from time to time an ethnocentric approach, which further perplexes the above mentioned rationale. For example, the US is printing money to influence the global state of economic and financial affairs and not the domestic one. The obvious purpose is that they money goes out and doesn't remain in the US. This is an integral part of US foreign policy, an important policy instrument in foreign affairs (what we call quantitative easing). It constitutes US response to counteract the absence of global policy coordination. We should not forget that the Obama Administration has proposed what British economist John Keynes suggested quite long ago, namely putting and setting cups in countries' external surpluses (not to exceed more that 3% of their GDP; the same percentage should apply to deficits as well). Economists will easily recall that it coincides with Keynes proposal back in the 1930s. Furthermore, the interesting observation is that his policy outline was rejected by the US since the Americans were acting in the 1930s like the Chinese are nowadays.

To cut a long story short, it is true that the Americans were entrapped in China's policy in the 1990s (when China decided to bond its economy with the one of the US). The rational was very simple for the Chinese. They decided not to allow their currency to appreciate -which actually takes place when you have surpluses-. And that being said they were certain that will remain competitive for a life time. In this respect, China imposed its policy on the US and was constantly competitive but in an artificial manner. Since there wasn't any rising in internal demand –due to no rises in wages- China looked for and turned to exports and invested its surpluses in the US. This is the main reason explaining how so much money was directed in the US and how the States became a consumer economy (although we should not underestimate the banks' issue it wasn't the actual root of the problem).

According to the above mentioned observations, the analysis 'follows the money' and examines causes and effects. Nowadays we have to fix the problem through a correction. We can detect that it is a rather technical problem (although many economists cannot escape from traditional mind frameworks). Unfortunately, this is where politicians enter the 'international arena' and impose further obstacles to resolving the crisis, since in the domestic front their electorates were educated otherwise and refuse to reverse embedded trends. A very indicative example can be traced in the EU, where Germany is China of Europe. On the other hand, countries like Spain and Italy enjoy a lot of similarities with the US.

Last but not least, we should keep in mind that the yuan to dollar currency is 50% to 60% devaluated. Meaning that, if wages in China were increased up to 60%, China would abolish its export oriented comparative advantage along with the fact that Chinese workers would spend and consume more (due to increased demand). It was Ben Bernanke, Chairman of the US Federal

Reserve, who had correctly acknowledged its approachment but underestimated the coming development as a posing problem.

So, to put it in a simple manner, "I am now (the US) printing money which I am sending to you (China)". In addition, US dollars as printed money, is global money. As a result of this policy demand is sustained and prices go up. By maintaining global demand which keeps prices up (oil, raw materials), inevitably China will face a problem of increased inflation which will decline its competitiveness since its products will then turn to be more expensive. However, let us not forget that there are limits for that kind of policy on behalf of the US and you cannot carry matters to extreme. There are always boundaries and constraints in the structures of the world's economy. Former US President George W. Bush was accepting the same logic but didn't fit for achieving policy-coordination at the global level.

Concluding Remarks.

To draw a conclusion, US and China are ideal potential partners for securing global policy coordination. There is mutual respect and mutual understanding between them (i.e. China followed a policy of coordination in 2009). Chinese policy makers know that the Americans are right but they cannot openly and publicly admit it. At the same time they try as far as they can to put it into action but again there are obstacles and vested interests in this delicate process. So, yes there are risks ahead. In addition, lots of policy ammunition has been spent during the last three years. That is why there is a global interest for a geopolitical architecture to ensure that the long term trends *come to be* and are not in danger.