PART 2

EMERGING POWERS: A ONE-SIZE-FITS-ALL CATEGORY?

Emerging Countries: An Attempt at Typology

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The adjective "emerging" is affixed to a number of nouns. There are "emerging markets", "emerging countries", "emerging economies", etc. These expressions all refer to new, naturally interrelated contemporary elements that can reinforce or hamper one another. They are used by actors having diverging interests and antithetical values. Traditionally, a dividing line opposes those who mainly study the evolution of markets and those whose research primarily explores the evolution of power. In discussions today, a clear opposition in values can thus be noted between those who, like Alice H. Amsden (2001), explain the historic success of Asian economies by state intervention and protectionism, and those who insist on the consequences of the internationalization of the economy and free movement of capital and on what emerging financial markets may produce.

In this chapter, emerging countries are those displaying three characteristics. Emerging countries first of all are latecomers to development, as defined by Gershenkron (1962), Murakami (1996), Amsden (2001), etc. Secondly, they can attain very high growth rates (of about 10%). Emerging countries are, thirdly, countries whose growth challenges, even threatens, the economic situation of developed countries.

In 2003, the Goldman Sachs Group showed that GNP in four countries it called the BRICs (Brazil, Russia, India and China), which represented less than 15% of the entire GNP of the G6 countries, would surpass it in 2050. This forecast, which emphasized the weight of demographic growth in catching up, confirmed

the fears developed countries had about the growth of emerging economies. The authors of the Goldman Sachs study did not, however, see in their findings any reason to apprehend—much less to criticize—the cruising speed at which emerging countries were growing.

Asian Tigers and Dragons: comparative advantages and improved financial regulation

South Korea, Hong Kong, Singapore and Taiwan, once referred to as "newly industrialized countries" or Dragons, were the first four emerging countries. Their development strategy, combining industrial policy and export promotion, was effective enough for them to become developed countries. These four countries drew inspiration from the Japanese example. Far from relying on internal dynamics and respecting the social gains (and liberalism) of developed countries, these emergences grew out of a will to challenge the international balance of power by enlisting state support. This model was taken up somewhat later by four Southeast Asian countries (Indonesia, Malaysia, the Philippines and Thailand), known as the Tigers, and to some extent influenced China and later India.

Their aim was to become part of the world economy without adhering to the rationale of comparative advantage that supposedly regulated it. The small Asian countries built new comparative advantages by protecting their infant industries (all the latecomers to development acted more or less in the same fashion) and developed an export subsidy policy. Moreover, these countries were able to take advantage of external assistance to undertake agrarian reforms that are partly responsible for the takeoff of South Korea and Taiwan. They have managed to integrate the world economy by relying on state support, developing a regulated banking system and strengthening social cohesion but without conforming to the social norms of the welfare state, at least in the first phase of their development.

This emergence raised a challenge for developed countries: a rise in imports and threats to their industries, sometimes leading to the gradual abandonment of entire industrial sectors (particularly steelmaking), a race for competitiveness, loss of jobs, threats to social compromises, gradual dismantling of the welfare state, all processes on which liberal experts generally place little emphasis. For this reason, the relations between small Asian countries and the international financial institutions quickly became complex.

As regards trade policy, the Asian countries did not respect the norm of comparative advantages taught by the World Bank and the OECD. They were sometimes criticized for this until the World Bank acknowledged the achievements of such a policy and qualified it as "respect for anticipated comparative advantages" (Balassa). As regards credit, the international financial institutions denounced the dangers of a regulated system and highlighted the considerable risk of corruption.

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They did not accept that crony capitalism may have been necessary in order for the Asian countries to take off. The OECD even obliged South Korea to liberalize its credit market, and to do so by breaking into the international capital markets, which led to a liberalization of capital flows, one of the factors that triggered the East Asian monetary crisis in the late 1990s.

The Sino-Indian trajectory for pulling out of underdevelopment

China was not the first country to emerge but it has become the largest, the most influential and the most emblematic of emerging countries. It typifies countries that have emerged by breaking the vicious circles of underdevelopment and challenging the longstanding positions of developed countries. Twenty-five years ago, the country was in fact locked into three vicious circles: between population growth and low per capita income, between small GNP and weak capital formation, and, lastly, between disarticulation of the economy and low level of overall productivity.

Today, on the contrary, forecasts regarding China's future (particularly those made by Goldman-Sachs) view demographic dynamism as a primary growth factor (which, depending on the forecast, is expected to fuel growth in the country for the next four decades, even more in the case of India). China, where the age pyramid is imbalanced because of the single child rule, is nevertheless experiencing population problems in its rural areas. The current gross capital formation rate (40% of the GNP) is another important growth factor. The very high level of investment, however, may jeopardize its effectiveness and the rise in productivity is still debatable.

China's capacity to challenge the achievements of developed countries arises first of all from its very size, its territorial and linguistic unity and the concentration of political power in a few hands. This is a far cry from the "dependentist" theories holding forth about the inevitable reproduction of international economic and political inequalities. Secondly, China has implemented a voluntaristic development model (investment rate, driving role of the state, purposely low salaries and deliberately low consumption rate). This development was accelerated by the mobilization of long unutilized resources (the jobless population, income from Chinese abroad, undeveloped areas, etc.). It is based on industry that imports a large share of its inputs and exports its output. It is on the offensive abroad (searching for trade surpluses, conquering markets and raw material supplies). There is a whiff of mercantilism in its quest for monetary holdings and in its determination to use its economic relations for purposes of political and military power (including use of financial investments in developed countries and political and sometimes military intervention in countries to secure supply of strategic products). Chinese development is viewed as aggressive when it systematically focuses on markets that are already occupied by foreign countries; it is considered

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brutal when it does not accompany its offensives with forms of compensation (for development, the environment, the fight against poverty, etc.).

This emergence has shaken up the world economy. Developed countries have seen their relative weight diminish, they have recorded considerable job losses and have seen their industrial or service sectors disappear to the benefit of emerging countries. They have sometimes had to give up well-established social norms and are sometimes tempted not to respect international norms. Protectionism is finding newfound legitimacy today because of threats against capital assets and the multiplication of company buyouts in developed countries by emerging countries. The slow return to protectionism against Chinese products is explained by the fact that transnational companies have been able to anticipate and even sometimes provoke the emergence of Chinese exports (Michalet), upstream through direct investment and technological support and downstream through imports of goods.

India has long been considered as the other typical case of a country caught up in vicious circles of underdevelopment. Growth in particular was thwarted by demographic, geographic and social imbalances. Poverty stemmed from high population growth: rural depopulation was fairly low in relative terms (the result being aggravated pressure on land) but too high in absolute value to be absorbed by the cities.

Until the early 1990s, India maintained limited relations with the outside world. The country borrowed from the Soviet strategy of planned development and was wary of capitalist imperialism. Institutionally, this era enabled the "meta-institutions" of democracy, the rule of law, press freedom and a civil service to be introduced in India, which helped to save the country from the crises that some other developing countries went through (Rodrik and Subramanian 2004).

Domestically, growth prevented sudden changes and drastic decisions, thanks to democratic procedures (out of a fear of conflict) and to a capacity for resistance—not always very democratic—on the part of economic, political and regional actors. Major economic innovations, for instance the Green Revolution, have always been the object of debate, the land tenure system has undergone few modifications, the caste system has continued to function even as it has changed (Jaffrelot 2005). India has not undertaken to regulate the rural-urban drift, which would have allowed it to reduce pressure on the land, or to regulate urban growth in order to avoid overpopulation of poor neighbourhoods and megalopoles. In what was sometimes an abuse of democracy, India's states maintained their prerogatives, even if this came at considerable cost (and still does today), and discouraged foreign investors who were concerned about the plurality of public decision-makers. All these distinctive traits of the Indian economy, still present in emergent India today, have led to relative stagnation with respect to other Asian countries.

Starting in 1991, India chose to open up its trade, appeal to foreign direct investment, and resort to financial capital incentives for Indians living abroad to repatriate their savings. It accepted the "reform" suggested by the various interna-

tional institutions and Western countries. Today, the country has a growth rate that nearly matches China's, and it constitutes the second largest emerging power in the world. The China-India comparison has become a central theme of many studies on emergence (G. Etienne 2007).

Such studies explore the different effects of China's and India's emergence trajectories on third countries. The impact of population growth in India (later and lower than China's) could become greater than in China. China intentionally planned the single child policy, and India currently has a window of demographic opportunity: the ratio of under 14 and over 65 to the total population is at its lowest, which favours economic takeoff. India's macroeconomic strategy is not as harsh as China's (the national savings rate represents 24.8% of the GNP, compared to 47.9% in China) and is less aggressive from a trade standpoint (in India the total current balance is 0.6% of GNP, compared to 2.9% in China) but also less open to foreign direct investment (total FDI is less than one-tenth of the Chinese total).

Developed countries feel less threatened by India's specialization in services than by China's in industry. Moreover, in recent years Indian industrial groups, Tata being a perfect symbol, have developed internationally on a large scale through corporate mergers and acquisitions even in Western countries. In the long run, the country should represent a major challenge for developed countries: the size of the working population should in fact grow by 180 million by 2020, whereas China's should drop by 10 million and the growth rate of India's GNP should exceed China's after 2015.

The oligopolistic strategies of oil and mineral-rich countries

Oil and mineral-rich countries are for the most part rentier economies, often affected by the "resource curse", corruption and capital flight. Some observers have moreover contrasted small emerging Asian countries and states with natural resources (Chaponnière 1985, Judet 1993). However, certain oil-producing countries and those with other raw materials (particularly mineral ores) have gradually been classified among emerging countries. For instance, Russia is named as part of the BRICs by the famous Goldman Sachs report (Wilson and Purushothaman 2003).

Growth spawned by raw materials has created a whole different dynamic from that which is characteristic of emerging countries where labour costs are low. Raw material producing countries drive world prices up instead of lowering them. In this way, they do not intensify competition but reduce it. Emerging countries thus become responsible for both the rise in energy costs and the fall in labour costs. As for developed countries, they must simultaneously face a rise in the cost of their energy imports and a drop in prices of their industrial exports.

The price of raw materials also weighs on emerging countries' relations among themselves, as their interests sometimes diverge. The rise in demand on

international markets gives countries that have raw material deposits the hope of getting out of the vicious circles of underdevelopment and guarantees them diplomatic influence.

Rentier countries have learned from emerging countries and now copy their strategy for international expansion; the countries of the Middle East and Russia are developing financial and real estate investment in developed countries at a faster pace and take part in corporate mergers and acquisitions.

In Africa: economic or diplomatic emergence?

The "emerging country" label has now spread to all continents, including Africa. The expression is in vogue and is used by some countries to attract capital and political support and mobilize economic actors. Several African countries are indeed showing signs of economic emergence as they have begun to instrumentalize emerging country coalitions in the diplomatic sphere.

South Africa has long displayed certain characteristics that are attributed to emerging countries: competitiveness, capital accumulation, control of its development, undisputed progress beyond a rentier economy, spillover effects (as well as domination) on the other African economies, the existence of an institutionalized financial market, the capacity for negotiation with developed countries, etc. This emergence has not prevented large pockets of poverty from persisting inside the country. The South African economy has not experienced a takeoff similar to those in the emerging countries of Asia or Latin America, but it has real economic power from which it derives diplomatic power, which will be examined further on.

In the 1990s and 2000s, the growth rates of African countries revealed the existence of a growing but limited number of countries (Botswana, Uganda, Ghana, etc.) that had embarked on a strong growth pattern respecting the norms of financial management defined by international financial institutions. These states have acquired a financial credibility that they had heretofore been lacking, even if, since 2004, the rise in growth rates, over 6%, comes primarily from oil-producing countries (OECD 2006).

The rise in exports to Asia has also become a decisive factor in the growth of African countries, which is likely to foster a return to the rationale of rentier economies. It is also known that China accompanies its ever-increasing purchases in Africa with aid packages granted on criteria that are sometimes poles apart from those of the international financial institutions (Sudan, Angola, countries along the Gulf of Guinea, Zimbabwe, etc.). Of course it cannot be ruled out that part of the volume of exports and aid will eventually be committed to productive investment, as happened in Asian countries as a consequence of Chinese demand.

The liberalization of international trade has produced more calls for projects for competitive commercial activities: new crops (flowers, for example) or indus-

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trial products (textiles). Although the former have sometimes succeeded, the textile industry did not survive liberalization. In Northern Africa (Tunisia, Morocco) and in South Africa, competitive companies were founded and then had to close because of Asian competition.

In Africa, at least four major phenomena are affecting financial markets. First of all, banking and financial institutions are draining an increasingly abundant slice of local savings. Remittances sent by migrants are on the rise. "Africa is in the process of becoming the new frontier for emerging market investors... flows of investment into the entire continent are gathering pace, to countries like Kenya, Ghana and Botswana" (Santiso 2007). Lastly, capital exports from certain African countries are growing, a phenomenon sometimes considered to be a symptom of Africa's takeoff. It should not be forgotten, however, that these capital flows are not recent in Africa and that such exports contribute to the low level of investment on the continent.

South Africa is recognized as an emerging country by all diplomatic bodies and has—or assumes—real representational power for the entire African continent, which until recent years instead attempted, emphasizing its difficulties, to exercise over developed countries what has been called "the soft power of poverty".

South Africa has a leading role in African bodies (SACU, SADC, NEPAD) that has been confirmed by its recognition by the G8 and European institutions and rumours about Africa being granted a permanent seat on the UN Security Council. The country's diplomatic fate is thereby tied to that of the coalition of emerging countries in international bodies, in whose name it claims to speak.

South Africa has also turned out to be an excellent interpreter of the complexity and multiculturalism of emerging countries, as well as an advocate of alliances between emerging countries and the poorest countries remaining in Africa. As it is itself characterized by the coexistence of two worlds within its own borders, its discourse reflects a dualism that is often neglected by other countries.

Lastly, South Africa is striving to be an example and a necessary instrument, although often forgotten, for any emerging country coalition. In many emerging countries there is a real plurality of cultures that is sometimes at the root of tension. Pretoria's multicultural discourse is on the other hand well received in international organizations and has always had a place of honour in calls for unity among the three formerly colonized continents. In official South African discourse the opportunity is never missed to recall the common history and age-old relations between Africa and India (sometimes presented in peace-oriented reinterpretations).

Different modes of international integration

The diversity of emerging country trajectories suggests a typology of these countries according to their modes of integration into the international political economy. These determine their relations with countries that were forerunners of

development, as well as their mutual relations. The structural similarities between emerging countries foreshadow possible economic coalitions and other diplomatic alliances but also probable antagonisms and risks of rivalry. Dissimilarities can create divergent interests containing the seeds of conflict over how the fruits of common growth are to be shared.

Countries that export labour-intensive products have taken the most spectacular trajectory, the one most likely to modify the international economic and political order. It is the most characteristic measure in the current phase of globalization. In developed countries it has lowered prices, slowed inflation, exerted pressure on wages, threatened jobs, etc. Emerging countries placed in competition by countries with low wages are also undergoing this process: China's entry into the WTO was a shock for the textile industries in the small emerging countries of the North and South of Africa which had hoped to take advantage of the liberalization of international trade.

Countries exporting on competitive markets create a race to competitiveness among emerging countries. Countries that are better endowed with natural resources, low wages or technical progress (as in the case of African agricultural exports competing with Asian exports) can win this game. But subsidies and state protection can also make them competitive. Such measures have also been practiced by small Asian countries in both agriculture and industry.

Countries selling in monopoly or oligopoly markets can raise the prices of their exports at the expense of consumer countries. Oil exporting countries have managed to increase their power in the oil oligopoly by which they felt exploited up until 1973. After this date, they increased their revenue, but many have become rentier economies with revenue that does not derive from production activities. They were unable to diversify, or in some cases even to create states. All were threatened with regression due to what has been called the resource curse. Today, after considerable price fluctuation, the decisive rise in payments to producer countries has given them financing capacities that have spawned new emergences (and reemergence in the case of Russia), with investment enabling them to diversify production, strengthen states and finance international, economic and political alliances. All oil economies are no longer only rentier economies.

Importing emerging countries represent a growing proportion of world demand, particularly through their purchases from other emerging countries. The increase in South-South trade has been evidenced by the annual UNCTAD reports. Complementarities have arisen between African countries that produce raw materials and Latin American agricultural countries and industrial Asian countries. Sometimes complementarities are regional, for instance around China (less frequently around India). They can create a vertical division of labour between the upstream and downstream phases of the productive process (a recent World Bank report on relations between Africa and Asia used the

timber industry to illustrate the model of Afro-Asian affiliates). It is however obvious that all these complementarities, whether existing or potential, lead to conflicts between emerging countries over terms of exchange, specializations with a promising future and technology transfer.

Foreign direct investment in emerging countries encounters principled refusal less often now than in the past. There is even competition among emerging countries to attract private investors. These, on the other hand, are hampered—to different degrees depending on the country—by increased national savings, the unalienable character of certain property rights (especially land tenure), administrative and regional resistance, and multinational corporations whose contribution is more in markets, services and technologies than in investment. Short-term capital inflows from the 1980s until the 2000s led to multiple financial and monetary crises on different scales depending on the continent. The appearance of emerging financial markets did not do much to erase the traces of these different experiences. The Asian countries reacted to their crisis of 1997 by putting their credit in order; Latin America learned to regulate its macroeconomic imbalances without depending on international financial institutions.

Capital exports from emerging countries are high (this is what is called the "original sin" of the emerging economies). Their effects have been diversified as allocations have changed: real estate investments by elites and the traditional portfolio investments have been replaced by corporate mergers and acquisitions, increasing Western apprehensions about emerging countries.

The growth of monetary holdings, lastly, has enabled China to become the main partner of the United States in world financial regulation: in increasing its trade surplus, the accumulation of dollar denominated monetary reserves which are not productive, China has been able to avoid a revaluation of the renminbi, which remains competitive, thereby contributing to the increase in the United States debt. Beijing has become the arbiter of the evolution of the dollar and the financial situation of the United States. A single emerging country has attained the ultimate achievement of upsetting power relations.

The different emerging countries currently experiencing the crisis

The world economy today is threatened by the conjunction of three crises (fuel, food, financial) creating a risk of stagflation. The local structure of each country has determined its experience of the crisis and the repercussions. China, for instance, has been able to import the fuel and meat that it demands, thanks to its increasing purchasing power. By doing so, China has accelerated the rise in the cost of fuel and food in the rest of the world.

Petroleum-producing countries (Russia and the Middle East) have used the considerable increase in their incomes to offset the price of food and increase their

foreign investments. In the short term, they have slowed the banking and financial crisis of developed countries. However, in the long term, this also threatens the sovereignty of developed countries, particularly through the control of sovereign funds.

In India, there is a risk of the crisis aggravating urban poverty through the consequent hike in the cost of necessities. There is also a malign effect on rural poverty, a paradox that can be observed in unbalanced economies. Agricultural producers can find themselves even more isolated from their markets, a situation that can threaten internal political equilibrium, particularly when elections are looming.

A few African countries with petroleum and mining industries have seen their incomes rise thanks to global demand and international investments (most notably from Asia). Nevertheless, food shortages in the cities – aggravated by the international crisis – have failed to benefit local agricultural producers. Despite experiencing a period of positive economic growth, the absence of political regulation and the failure to distribute supplies have caused hunger riots and urban violence.

Paradoxically, in Latin America, the crisis has had the effect of accelerating emerging countries' development. Some countries have disclosed the discovery of petroleum resources or affirmed their intention to mobilize their resources economically and politically. Furthermore, Brazil's success in the production of biofuels has established it as predominant within BRIC.

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