WHY GLOBALIZATION DOESN'T NEED THE WEST

International Relations expert PARAG KHANNA explores how world trade has evolved with time to redistribute the global balance of power and reveal new alliances between the emerging markets.

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'There can be little doubt that we live in a "G3" geo-economic landscape, dominated by the US, the Eurozone and China. But economic convergence continues across all regions. The 10-strong ASEAN grouping is the world's fastest-growing region; Africa remains largely on the fast track; and Latin America's 800 million people represent almost two-thirds the GDP of China.

This growth is driven by investment, consumption and trade, building up a resistance to external shocks such as the US Federal Reserve's tapering programme. What most economists miss when analysing individual emerging markets are the intraregional and inter-regional foundations of their growing resilience. ASEAN's exports to the sluggish Eurozone, for example, have dwindled substantially since the financial crisis, but its internal trade volume has risen to 30% of its total trade in the same period. In 2015, it will launch a free-trade area comprising more than 600 million people, with a GDP substantially larger than India's.

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The interregional dimensions of the global economy are equally powerful in explaining more robust distributed growth. Over the past decade, trade and investment flows between South America, Africa, the Middle East and East Asia have risen anywhere from 700 to 1500% – yes, quadruple-digit growth. Of course, what was once called "South-South" trade has risen from a very low base, but today China has surpassed Europe and America as Africa's primary trade partner. As new supply-chain connections and flows of investment and trade flourish across various regional borders, a new pattern of diversified interdependence has taken shape. It is increasingly clear that globalization does not, in fact, require a Western anchor.'

The struggle for success

'Not all growth markets are on a smooth, linear path to success, and instability surely lies ahead for the ill-prepared. Those with excessive credit growth, high short-term external debt and weaker reserve positions remain at substantial risk of volatility stemming from rapid capital outflows.

According to an Economist index, the most vulnerable countries are in Latin America and Eastern Europe. Turkey tops the list, with a plummeting lira and misallocation of capital causing the credit bubble to pop and spread unrest across the country. Other developing-country heroes such as Brazil and India have also witnessed huge economic setbacks in the past couple of years owing to very low infrastructure investment, which weakens economic and social mobility and reminds us of the narrow base of growth that plagues many emerging economies, including the Middle East.

Still, we should not underestimate how the forces of demographic growth, urbanization, middle-class expansion, economic openness, institutional modernization and infrastructure renewal have been and can become increasingly robust foundations for worldwide growth.'

Novel opportunities

'Smart Western exporters such as Germany are well ahead in capitalizing on these trends: Germany's intra-Eurozone trade is falling while its exports to emerging markets are expected to reach 70% of total trade by 2025. The US is just as keen to ride the global growth wave. Currently it is negotiating both the Transatlantic Trade and Investment Partnership (TTIP) with Europe and the Trans-Pacific Partnership (TPP) with Asia. The former would harmonize the US-EU regulatory landscape and reduce the remaining inefficiencies among Western economies, and the latter could help break up inefficient state-backed monopolies and unfair competition in Asia. The more seamless global trade and financial integration becomes, the more we can continue on the path away from gravity models and regional blocks towards truly global complementarities.

Growth markets have also become key power brokers in the arena of international economic diplomacy. The World Bank's outgoing Chinese chief economist has strongly advocated a plurality of growth models, and the IMF has endorsed limited capital controls that have helped protect growth markets from excessive financial volatility. Emerging markets have also been high on the agenda at the G20. Beyond the perfunctory statements about the need for coordinated stimulus and limited protectionism, the G20 emphasised the need for investment in job-creating infrastructure as the backbone of a broad-based global economic recovery, advocating jump-start investment funds, more multilateral risk insurance and long-term private-capital flows into infrastructure projects.

The G20 economies should not only endorse this approach, they should act on it. Growth markets are clearly pursuing a smarter path towards their own economic development, and are wisely recruiting Western investors and institutions (and each other) into the process. Globalization is alive and well.' ■

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