

INTERNATIONAL ECONOMY AND DEVELOPMENT TRENDS IN THE COMING YEARS

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International economy is now undergoing profound changes, making direct impacts on the shaping of global development trends. This process has been developing speedily, being driven by globalization, regionalization, uneven development laws, the development of science and technology, and especially the recent global financial-economic crisis. The strong rise of the Asia-Pacific region, especially the bigger role of the emerging economies, the comparative economic decline of developed countries, the above factors and the strategy adjustments of key economies now represent the determining factors of a new world order.

The characteristics of present international economic relationship order

First, the international economy has shifted from “one superpower with a number of great powers structure” to “multi-polar - multi-center one” and shown some signs of a new international order. In the last decades of the 20th century, there were only three major economic centers, namely: the US, Japan and Europe, nowadays this state of affairs has changed greatly. In spite of the fact that the US still remains a

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supreme economic power, its economy has weakened and its position further declined. Therefore the US cannot address the problems of the world on his own and has to work with other countries, especially in dealing with the recent global financial and economic crisis.

The main reason is found in the changes in the balance of economic power, with the emerging of the BRIC group (Brazil, Russia, India and China), especially, China has surpassed Japan becoming the second world largest economy since August 2010. China, which used to adopt the rules of the game set by international economic organizations in the past decades, now demands the modification of these rules, the reform of the World Bank (WB) and of the International Monetary Fund (IMF) and a bigger role for China in these organizations. Russia is now re-emerging, seeking ways to revive its international status, despite severe impacts of the recent financial - economic crisis. India has been maintaining rapid development momentum. Meanwhile, the U.S and European countries, being in the centre of the crisis, have been affected most.

The international groupings and the system of international economic institutions have strongly developed with many newly-born organizations to cope with global problems, the most outstanding of which is the G20¹ now being the number one forum to manage global economy, replacing the role of the G7 and the G8² in this position.

Second, the balance of influence has been shifted from the North to the South, from the West to the East. Especially since the beginning of

¹ G20 includes 7 industrial development nations (G7): the U.S, Germany, Japan, France, Britain, Italia and Canada and some other members: European Union members, Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Arab Saudi, South Africa, Korea and Turkey.

² G7 + Russia.

the 21st century, the Asia has been the driving force for the development of the global economy, attracting the interest of all the powers inside and outside the region. The region plays an important role in the adjustment of both foreign and international economic policies of all the big nations. The main reason is the dynamism and long-term potentials of financial capital, foreign exchange reserves and young labor force... of the region, especially those from the emerging economies such as China and India, who are expected to reach the first place and third place respectively in the next two decades.

According to a research of the Carnegie Institute of the U.S, the GDP of the G20 will increase from \$ 38.300 billion in 2009 to \$ 160,000 billion in 2050, of which Brazil, Russia, India, China, Indonesia and Mexico will account for 60%. The GDP share of these countries in the G20 will increase from 19.6% in 2009 to 50.6% in 2050 while the share of the G7 will decline from 72.3% to 40.5%.³ China will rise strongly, compete with the US and gradually replace the US in terms of contributions to the Grouping's GDP, increasing from \$ 3,300 billion in 2009 to nearly \$ 21,500 billion in 2030, while the US's will increase from \$ 12,900 billion to \$ 22,300 billion.⁴ Moreover, in addition to the fact that big nations play decisive role in economic field, small and medium-sized countries have also increased their standings.

Third, economic factor has played an increasingly important role in international relations. Cooperation to promote economies, trade and investment... is the top priority in bilateral relations, regional and inter-regional relations as well as in multilateral relations in the framework of the WTO. Moreover, while countries in the past competed with each

³ Carnegie Endowment for International Peace, *The World Order in 2050*, April 2010.

⁴ Ibid.

other mainly over raw materials, now they have moved to energy resources. In the competition over comprehensive power, nations give priority to science technology, with focus on the development of human resources. The effects of globalization have created two trends: on the one hand, nations compete sharply to gain markets (it is not like spatial competition over colonies and sphere of influence in the past; it is the competition over the consumption of goods and services); On the other hand, they cooperate to create greater interdependence. This is one of the factors preventing the outbreak of a new world war.

Fourth, the trend of bilateral, regional economic linkage and regional linkage has strongly developed. While the Doha Round starting in 2001 stands still and world trade has declined due to the financial economic crisis, leading to increased protectionism, the formation of regional, inter-regional economic linkages and bilateral relations in the form of "Free Trade Area" (FTA) and "Regional Trade Agreement" (RTA) has promoted globalization. According to Dab's statistics, in Asia area, alone in 2009, there were 54 FTAs (40 of which were in operation and 14 others were under negotiation) and 78 other FTA initiatives are being studied to prepare for negotiations such as FTAAP, East Asia Community and Asia-Pacific Community. Especially, Trans-Pacific Economic Strategic Partnership Agreement (TPP), starting in March 2010, has reflected the members' desire to promote trade liberalization in this framework. Big countries inside and outside the region such as the U.S, Canada, EU, Japan, Korea, Russia and India... are actively adjusting their policies in the direction of moving closer to Asia in order to gain advantages in the region.

Fifth, the world is faced with serious challenges, for example the running out of resources and oil, shortage of foods, environmental

degradation, climate change... Solutions to such problems are related to other global issues such as sustainable development and addressing the imbalance of world economy... Therefore, cooperation between countries is required.

Sixth, at global and national levels, there are on-going restructuring of economy and finance; adjustment of policy; adjustment of the relations between production and spending, between the government and the market; the increase of government's regulations; the development based on intellectual economy; development in depth and sustainable, balanced and green way... Many countries have adjusted relations between internal markets and external ones (paying more attention to internal markets), and to relations between real economy and virtual one (development of virtual economy is uncontrollable and 8 to 9 times bigger than the real one). For instance, The U.S has applied saving policy and increased export, the Europe has given priority to green development in its economic restructuring, so as to maintain its competitiveness after the crisis. Whereas, Asian economies, particularly the developing ones, have changed from saving and export to encouraging spending and domestic demands.

Seventh, the trend to reform international organizations (the UN, the IMF, the WB, the G7, the G8, the WTO,...) is progressing in a more democratic way, giving developing countries more representation. The G20 has emerged and replaced the G8 to address important global issues such as surmounting the consequences of the global crisis and recessions, ensuring the balanced and sustainable development of the economy; reshuffling international financial and banking systems. This trend reflects the changes in the relations between the North and the South, and those between economic powers and simultaneously helps to shape the pattern of international economic relations.

However, regarding concrete measures, the positions of the US, the EU and those of G20's emerging economies greatly differ. During the G20 summit in June 2010, the U.S urged nations not to reduce strong expenses on to withdraw bailout packages so as to maintain economic recovery momentum, while the EU viewed "belt tightening" as an important measure to prevent increasing public debt which affects EU economic recovery. The U.S suggested China should revalue the Yuan in relation to the U.S dollar...

The relationship between "polars" in international economic relations

Important changes in the balance of power are developing fast, strongly affecting the relationship between the old polars and the new ones regarding post-crisis resolutions to international economic issues. The relationship has the following characteristics:

First, the big powers continue to play the leading role. The recent financial-economic crisis has shown the apparent decline of financial-economic centers of Europe and North America and the strong rise of Asia, being led by the Chinese economy. Obviously, "unipolarity" is retreating with weakened American influence over international financial institutions. On the other hand, we have to admit that although the leading role of the U.S is declining and will continue to decrease in medium-term, no one among the emerging countries has the capability to play the leading role.

At the G20 summit in February 2009, the U.S succeeded in persuading nations to increase \$ 1,100 billion for international financial institutions in order to overcome the consequences of the economic crisis, the deep cause of which stemmed from the economic

mismanagement of the U.S. That has helped the U.S to continue using important financial institutions including the WB, the IMF, to govern the global finance through the US dollar. “Efforts to help developing and underdeveloped countries” by the Obama administration mainly aim to bring about interests for the U.S and Western countries.

As China is emerging as an important factor in international arena, international political and economic analysts have talked about the possibility of forming G2 - the U.S and China. However, the idea of establishing G2 has met many strong opposition from the U.S political circles. Dennis Wilder, the former senior adviser for Asia of the National Security Council under the Bush administration, said that although the relationship between the U.S and China was very important, seeing the Sino-US relationship as G2 would damage American relations with other Asian countries and its Asian allies such as Japan and India.⁵

Regarding China, in spite of China’s statement that it was willing to provide financial support to developing countries, promoting genuine progress in reforming international financial institutions, especially the IMF in the direction of promoting developing countries’ role, Beijing has publicly shown its reservation and is not interested in the idea of forming G2. Speaking at the EU-China Summit, on 24th May 2009 in Prague, Chinese Premier Wen Jiabao pointed out: “Some people believe that China and the U.S will jointly lead the world, I think this is not correct.”⁶

Second, conflicts of interests and rivalry for influence among great powers and groups of nations continue to increase. Globalization and the responses to the recent financial-economic crisis have created sharp

⁵ Dennis Wilder, “How a ‘G-2’ would hurt”, *The Washington Post*, April 2, 2009.

⁶ “Premier Wen’s Message to Europe: No to G2, for Now”, www.chinastakes.com, May 24, 2009.

disagreements among big nations, however, the interdependence is so compelling that they are obliged to make compromises and mutual concessions in many areas, especially in economic terms, so as to head off immeasurable negative consequences for all related parties.

The shifting of the global economic balance has given birth to many economic centers cooperating with and competing against each other. Competitions among these centers and those among world economic “polars” have further complicated economic relations with interwoven interests, leading to the grouping of new forces based on mutual interests.

The striking emergence of many developing economies, especially China, Brazil, India, Mexico and South Africa (G5)⁷ has created a certain counterweight to the G8 in some global economic issues. The responses to the recent financial - economic crisis show that developed economies such as the G8 are no longer able to impose the rules, and have to cooperate with the emerging economies such as the G5 or the G20 to maintain their decisive role.

Despite many remaining disagreements of strategic nature and irreconcilable, differences over political institutions, values and the increasing standing of China that is now challenging the US supremacy, the Obama administration is now adjusting and more flexible, because the Sino-US relations is a “golden key” to address US present difficulties and greatly motivate the two countries to maintain and promote their leading roles in the development of world economy.

⁷ It is also called BICSAM, according to Brazilian President in June 2007. Up to now, G5 only organized Foreign Ministerial Meetings to discuss on its common issues.

As for China, it needs to be cautious and wants to avoid tensions which can directly affect its economic interests since China is now the American huge creditor and the U.S is still a paramount important economy, consuming a large amount of Chinese exports.

The recent regional and international developments have shown that China has become a key player in the global political arena, moving from the status of “audience” to that of “an opinion maker”, playing an even greater role in moving the game, especially in international institutions such as the WTO, the WB and the IMF. In the IMF framework, it is the first time since its inception that European countries have surrendered two out of their nine seats in the IMF’s Executive Board to the emerging economies (the first is China) in the G20 Finance Minister’s meetings on 23rd October 2010 in South Korea.

The U.S-EU axis has been splitted to some extent into two axes: the US and Britain axis and France and Germany one as the result of the disagreements between the U.S and France and Germany over the way of dealing with the financial-economic crisis. However, the two sides have reached a compromise with which the US request for additional financial assistance for global economic stimulus packages has been met while France and Germany have secured the G20’s commitments to tighten international financial regulating rules, raising the IMF’s role and authority.

The U.S-Russia relationship has seen important achievements as the U.S recently has taken compromising, flexible steps in order to reach strategic agreement with Russia regarding the nuclear programs of Iran and North Korea, the Strategic Arms Reduction Treaty, the Afghanistan problem, the entry to the NATO of Georgia and Ukraine, the plan of deploying the US National Missile Defense (NMD) in Europe...

However, in economic terms, the two sides deeply differ. Russia supports Europe’s position to put in place a tighter mechanism to manage and supervise the global economy, as opposed to the U.S plan of “pulling the world out of the crisis by increasing spending. Moreover, Russia continues to appreciate relations with China, enhancing strategic cooperation through the consulting mechanisms on strategic issues and promote relations within the BRIC group as a counterweight to the U.S, raising the group’s role in global trade, economic and financial matters.

Third, the problem in the grouping of new forces such as the G20, the BRIC. The G20’s solutions proposed in the recent Summit are viewed as constructive in this state of affairs. However, there are many problems due to the conflict of interests among these countries. Due to the financial crisis and economic recessions, big countries tend to intensify protectionism with sophisticated measures causing difficulties to poor and developing countries in accessing their markets, especially tight standards on quality, environmental standards, food safety, taxes and technical barriers...

In the financial monetary field, BRIC’s proposals to replace the U.S dollar with the other international currency show that U.S dollar has been weakened. However, which currency will be chosen is still an open question. Many countries hold the view that it is necessary to abrogate the regulations, which facilitate the U.S and European control of the WB and the IMF.

These developments above show that although the U.S must share against its will the influence over the financial institutions in order to overcome immediate difficulties, it still wants to maintain its decisive voice in these bodies.

Thus, the present groupings and the important financial institutions have shown conflicting national interests, which could hardly be solved in the near future. Therefore, relations among big nations will still witness series of compromises, trading-offs and concessions to secure the highest national interests. The voice of underdeveloped and poor countries which have been raised in the U.N sessions and the enlarged G20 and other forums, still remain weak and superficial, being of formal nature.

The transformation from the G8 to the G20 has marked some important shifts in the global economic structure, aimed at overcoming the financial crisis, halting economic recession, promoting sustainable recovery and the balance of the world economy; however, turning commitments into reality entails both clashes and cooperation. As a matter of fact, in an inclusive structure with many members such as the G8+5 and the G20, arriving at agreement is always difficult. Many economists have said that so long as the world economy is still under the control of transnational and supranational financial capitalist groups, it is hard to avoid crisis cycles in the future regardless of how inclusive the G20 may be and the emergence of many more regional and interregional groupings. If anything, these organizations could only help to reduce damages from crisis cycles. The G20 has not become an objective economic institution reflecting global economic interests.

Asian dominant rise in global economic growth

The financial crisis in 2008 affected most of the countries in the world at different degrees. According to the World Bank, global economic growth will increase by 2.9% in 2010, 3.3% in 2011 and 3.2 - 3.5% in 2012 whereas it declined by 2.9% in 2009. The average GDP of developing countries is projected to increase by 5.7-6.2% in the 2010-12

period, especially the Eastern Asia economy will rise by 8.7% in 2010 and 7.8% in 2011, while the developed countries's GDP will increase by 2.1- 2.3% in 2010 and 1.9-2.4% in 2011, that still fail to off-set the decline of 3.3% in 2009.⁸ This demonstrate that emerging economies have increasingly contributed to global economic growth. This trend will have far-reaching and wide-ranging impacts on the formation of a new world both politically and economically.

The rise of emerging economies is an important factor affecting the world economic changes. Having overcome the recent grave crisis, the emerging countries have quickly asserted their role and standing in the world economy. Asia has recovered more quickly and strongly than any other regions in the world and it is the "center of the emerging world". Singaporean Senior Minister Lee Kuan Yew said that economic growths of China and India have dominated Asian economy and will continue to play important roles in the process of shaping world order before the end of the 21st century. Although the U.S economy is faced with difficulties, Asia will not fall into economic recession.⁹ The "Economist" (Britain) predicted that Asian countries will rise in the letter V direction in the coming 5 years with the annual average GDP growth rate of 7-8%. The speed of economic recovery of the region is three times faster than those of other countries. Therefore, Asia constitutes a new driving force and a new center of global economic growth. U.S president Barack Obama shared the same idea in an unofficial meetings of the APEC leaders in November 2009 in Singapore, while highlighting the importance of Asia towards the U.S and asserting that the period in which the U.S separated

⁸ WB, "Global Economic Prospect 2010", June 2010.

⁹ The speech of Senior Minister Lee Kuan Yew delivered at Rajaratnam University on 9 April 2009 with the theme of "Major characteristics in Singaporean foreign policy in the past and the present".

from Asia, the world fastest developing region, was over. The U.S will come back. On the eve of the East Asian Summit in Hanoi, US Secretary of State H. Clinton also stated that the U.S would continue to play the leading role in Asia-Pacific region to promote security, economic growth and democratic values.

Being a driving force of global economic development in Asia, the group of emerging economies and developing countries are projected to take up 50% of the global GDP by 2020. With the annual average economic growth of China and India of 9% and of other Asian countries about 7.5%, in the next 40 years, China and India will account for 40% of the global economy, regaining their golden history 2 centuries ago, and Asia will take up 50% of the global GDP, returning to “number one” position it previously held.¹⁰

Development trends of the global economy

With the above shifts and factors in the international economic relations, the following development trends of the global economy can be projected:

First, international economic globalization will continue to develop with new characteristics. International economic globalization has increasingly gone into depth, affecting many aspects of social - economic life of many nations and having new characteristics which include:

- The development of science and technology and the linkage between economies make the world “flatter”, creating opportunities for

¹⁰ Lee Kuan Yew, *Judgment on East Asia*, Southeast Asian Blogger Network, 6th October 2007.

the development on the one hand and increasing the possibility of spreading chaos and grave economic crises on the other hand.¹¹

- With the rise of China, India and other developing nations, globalization will decrease the “Western colors”¹² and increasingly bears the hallmark of developing countries.

- Transnational companies which are diverse in scale and origin and beyond national control, will become the forces for promoting national economy.

- Competition will become more and more complicated and expanded to many areas, in which the competition for raw material resources will get sharper, especially those for oil and gas. Competitions in other areas such as in the air, on sea and on the internet will be very fierce. Global problems such as population growth, climate change, and shortage of foods will be more pressing.

- The science and technology revolution will further develop with intensity, giving rise to intellectual and green economy. The striking developments in nano technology, IT, information, micro-biology, new resources of energy¹³ will on the one hand open new opportunities for the countries which can access and apply these technologies; and at the same time create the dangers of being left behind for the countries who fail to work out proper strategy. It is believed that Europe will also overshadowed by Asia in some technologies. Despite the fact that the

¹¹ Subcommittee on Economics, the 26th Diplomatic Conference with the theme of “Situations, problems and development trends of Vietnamese economy” December 2008, p. 9.

¹² Report of the National Intelligence Council’s 2020 Project, at: http://www.dni.gov/nic/NIC_globaltrend2020_es.html

¹³ Ibid.

U.S still takes the lead, it will have to compete fiercely with Asia.¹⁴ Therefore, the building of intellectual economic model based on high technology is a natural trend to ensure sustainable development.

The shift of power from Western countries to emerging economies will continue. The economies of emerging nations, especially those of China, India and BRIC group will play a leading role in the recovery of the global economy. The economies of the EU, North America and East Asia will serve as three main pillars, despite the fact that Europe is still faced with many difficulties now. The economic potentials of the West is declining while the ones of emerging countries are increasing strongly. China continues the race to replace the U.S as the biggest economy. At present, the U.S still maintains the leading position in economy and science technology, however, the share of the U.S in the global economy has decreased. Some of the big economies are going up, bridging the development gap with the U.S.¹⁵

- The Asia-Pacific region will still be the most dynamic economic center in the world because of the big economies such as the U.S, China, Japan, India... which put together account for more than 50% of the global GDP and more than 70% of the global trade.¹⁶ The region will be one of the driving forces of the global growth. Besides its importance in terms of geo-strategy and eco-strategy, the potential hot spots such as the Korean peninsula, the Taiwan strait, the South China Sea or conflicts among religions and ethnic groups,... will continue to be prioritized

¹⁴ Ibid.

¹⁵ In 2007, it was the first time when the contribution of China to the global economic growth overcame the U.S in market terms (China and the U.S contributions were 17% and 14% respectively) and by P.P.P (34% for China and 7% for the U.S).

¹⁶ According to website of the National Commission on international economic cooperation. <http://www.nciec.gov.vn/print.nciec?1771>.

issues in big countries' foreign policy. Some hold the view that that 2020 is too early to talk about an "Asian era".

Second, the trend to seek new economic development models. Developed countries as well as developing countries have to adjust their economic development policies, trying to find new developing models based on intellectual, green or clean economy. Economic resources such as "clean economy", "Internet economy" and "environmental economy" will become the cutting-edge ones in the future. The new strategy for growth (balanced, sustainable, fair and even growth) will be carried out, with focus on macro economic matters, financial stability, ensuring human resources, developing effectively labor markets, ensuring social welfare, economic development and protecting the environment.

In the building of development models, nations especially developing ones, have to reconcile their own different interests, maintaining the growth rates, ensuring the stability of their macro economies and the quality of life. In these endeavors the accomplishment of the millennium goals will contribute to the implementation of the development strategies in many countries.

Green economy will become one of the main trends from now to 2020. The economic financial crisis and the difficulties in ensuring energy security, food security and fighting against climate change require nations to seek solutions to the crisis and to ensure sustainable social-economic development trends after the crisis. Promoting green economy with focus on the protection of environment, developing clean production technology and clean energy is one of the priorities of many countries in the coming time. For example, China has planed to invest 575 billion euro into this sector in the coming years. In 2009, China invested 26 billion euros in this section while the U.S investment was only 14 billion

euro. Beijing plans to use step by step green energy in direction of replacing the current energy which create pollution such as coal or oil. Green energy strategy of China is very clear: from 2005 to 2010, renewable energy play supporting role; from 2010-2020, it will become replaceable energy; in the 2020-30 period, renewable energy will take the first place; by 2050, this type of energy will become the main resource, accounting for 35-40% of the total energy of China.

Third, the trend to reform and renew the global economy. The process of restructuring international institutions, the positions of powers and of the centers of powers continue to shift to multi-polarity with the participation of various players. The G20 is becoming more important in coordinated solutions to economic issues and international finance matters. The role and voice of developing countries will be increased, especially when they group together in regional or international organizations, partly thanks to the increase of developing countries' economic strength in the global economy. More importantly, multilateral institutions will promote the rules of international law, raising the role of small and medium nations in the negotiation and implementation of international obligations.

Non-governmental actors are playing a more important role. Recently, non-governmental actors, particularly multinational and trans-national groups and non-governmental organizations, have become more active in international affairs. This has contributed to overcoming the lack of democracy in international relations to a certain extent. Therefore, the reform process and restructure of the global economy have led to the reform of international economic relations in a more democratic way.

The governing mechanisms of the global economy will be more flexible. The G20 will replace the G8 in restructuring and resolving

international economic problems. Moreover, factors such as climate change, unstable political situations, the running out of energy resources, health care and military matters,... conflicts and clashes between developed countries and developing ones have further complicated international relations and world order, that will be evidenced in the reforms of the global economy and international economic institutions.

In conclusion, the process of forming a multi-polar world with the participation of some new emerging economies having huge economic potentials and the post-crisis problems such as high deficit, inflation, high rate of unemployment,... will affect the relations among countries, particularly the polars of a new global economic order. The economic cooperation between the West and BRIC group will also increase and exert a considerable influence on international economic relations in the development trends of the global economy.

The movement to a multi-polar structure of the global economy has become more clear, however, the speed of the movement in the coming time will depend on many factors, especially on the development of new polars and the formation of new country groupings. For instance, the G5 which mainly depends on raw materials, energy and low technical content, therefore has come close to its "limitation" and is vulnerable to "energy shock". If the G5 does not adopt growth model based on intellectual and high technology soon, the gap between the G5 and three old global economic centers will be widened. As for the G20, although emerging as an institution having prospect to play a bigger role in international economic matters, the diverse interests and will hinder the harmonization and compromise between country groupings. Therefore, the process of shaping a new multi-polar international economic order and the development trends of the global economy will be very complicated in the coming time./.