DIMENSIONS OF THE REDESIGNING PROCESS THE WORLD ECONOMIC POWER

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Abstract: *It is clear that the 21st century is an age of risk. It is a time when the interconnection of all things is manifest in human affairs, and volatility has amplified beyond control, leaving organizations and individuals searching for new ways to understand, manage, mitigate and respond to a variety of global risks. The article emphasises a few global risks and related opportunities generated by the economic crisis. Decision makers must find new forms of cooperation to actively rebalance risks and opportunities to secure a more stable and sustainable long-term future. The new reality is manifested through global power shifts, economic uncertainty, resource scarcity, institutional weakness. The international community tries to provide a common platform for the discussion of relevant risk areas and catalysing new opportunities for a coherent risk response.*

Keywords: *global power shifts; economic uncertainty; emerging powers; resource scarcity; institutional weakness*; *inequality*.

1. Introduction

The 21st century has seen an *essential redesigning of the way business, civil society and governments operate*. The economic crisis and its consequences have accelerated the shift of economic and political power from the developed to the *emerging nations* and exposed a fragile world with limited capacity to respond to systemic risks. Knowledge, technology and networks have joined individuals, states and non-state actors into a complex interdependence.

In our day, decision-makers and leaders must deal with the *new reality*. They must identify new ways of relating to each other, new forms of communication and contact, new operating frameworks and business models, new norms, while managing the challenges of the everyday, dealing with new sets of unknown unknowns, and navigating an unfamiliar landscape with a set of institutions and structures built for a different time.

2. The Recent Reality

Institutions and decision makers have to discover *new types of collaboration* to dynamically rebalance risks and opportunities to secure a more stable and sustainable long-term future. This new reality is obvious through:

•*Global power transfer*. Economic and political power is no longer concentrated in the hands of the developed economies.

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Emerging markets have become centres of both economic growth and geopolitical decision-making.

•*Institutional weakness*. Governments and global institutions that were fragile before the crisis have, by and large, become even more so in the face of global instability. The world is in no state to withstand further shocks.

•*Resource insufficiency.* The damage of providing for a world with a population heading speedily towards 7 billion and beyond threatens to undercut growth, create environmental problems, and cause social and political conflict.

•*Economic uncertainty.* There is a high degree of volatility and ambiguity across many markets in the short to medium term, which is likely to lead to irrational behaviour on the part of investors.

Today, global interconnectedness means that it is not possible for any stakeholder to tackle these challenges in isolation. The network of factors affecting global institutions and local communities has expanded, and its complexity multiplied. Carelessness by a supplier in a foreign market can damage the reputation of a multinational headquartered on the other side of the globe. One nation's regulatory changes could affect a cascade of businesses in many different sectors. Leadership today means navigating a larger, more complex set of issues and more complicated relationships.

The international community must find solutions to the most challenging current issues, to respond to new distributions of economic and political power, and to adjust institutional relationships to effect the necessary changes.

This development requires recognizing that *globalization, technological innovation* and other drivers of the new reality have impacted communities around the world unevenly. On first glance, it is tempting to conclude that emerging economies are supplanting overspent developed nations. But this conclusion flattens differences among emerging markets and the variable impact of globalization and economic growth on countries, business sectors, communities and even families.

A more considerate analysis reveals that global rebalancing needs to be *a long-term, collaborative process*. It must enfranchise those excluded from global growth and encourage those who have prospered to continue doing so in a sustainable manner. The recent economic crisis demonstrated that systemic risks can no longer be tidily contained and addressed in a single ecosystem but require a multidisciplinary, multistakeholder effort to get better the global system's general flexibility.

3. A New Background of Fragility and Fragmentation

Global power shifts is the most important topic facing the world into the near future, according to the world's largest brains trust.

What trends would drive global affairs in the next 12-18 months? The answers paint a portrait of an unsettled world driven by important shifts in geopolitical realities, struggling with the need to provide quality of life for close to 6.8 billion people and rising. The top five issues identified were (see also table 1):

•*Global power transfer*. Because economic influence shifts from the developed world *to the emerging economies*, *political power* will without doubt go behind. How this dynamic plays out will be at the crux of geopolitical events as we head further into the 21st century. "*Asia and other emerging markets will outstrip the economic performance of Europe and North America, where stubborn unemployment and political gridlock will make policy reforms harder*"[1].

•*Inequality*. While global growth has continued, inequality between and within countries has widened. "*How can income distribution be improved on a fair, equitable and gender-sensitive basis for more harmonic societies?*"

•*Population expansion*. "*Global population growth and humanity's decision to be silent on the issue for political/cultural/religious reasons is the most important issue.*"[2] The population of the world is exploding, with 6.8 billion people (and rising) struggling for resources. The inevitable strain this trend puts on all areas of socio-political relations influences all the issues identified by the experts.

•*Scarcity of resources*. A critical fundamental trend that will drive much conflict and realignment of the global landscape in the near future is access to limited resources. Shortages across commodities from water and food to iron ore and rare earth will be a key point of negotiation: "*How do we decouple economic growth from resource consumption*?"

•*Uncertain economic improvement*. This topic is aggravated by the consequences of the global financial crisis, global imbalances, and the presence of financial fail across Europe, fiscal crises across the world and currency instability.

The Five Most Important Trends for 2011
Table 1.

Ranking number	Issues	Details
1	**Global power shifts**	Given the shifts in economic power as the world seeks to rebalance itself in a highly volatile setting, what can be done to enhance the quality of global cooperation?
2	**Inequality**	With 212 million unemployed workers and falling wages shares, growing poverty and inequality poses fundamental threats to justice,

[1] One Member of the Regional Agenda Council on the Middle East & North Africa said.
[2] A Member of the Global Agenda Council on Population Growth responded.

Ranking number	Issues	Details
		social inclusion and peace.
3	**Population expansion**	Global population growth rate and humanity's decision to be silent on the issues for political/cultural/religious reasons is the most important global trend.
4	**Scarcity of resources**	What will the scarcities of tomorrow's world be, and what needs to be done today to mitigate them?
5	**Uncertain economic recovery**	Continuing erosion of stability, buying power and growth potential of the world economy.

Source: ***Outlook on the Global Agenda 2011****, World Economic Forum, Geneva, January 2011, page 15, available on www.weforum.org.*

4. Moving the Power toward China, India, and Brazil

As a consequence of the global economic crisis, many developing economies have roared back to robust health, while America, Europe, and Japan continue *to stagnate*. Constant unemployment in the United States and the debt crisis in Europe have supplementary amplified perceptions that a weakened West is losing its vigour, just as China, India, Brazil and other emerging powers step onto the international stage.

Risks of Shifting Balance of Power
Table 2.

Ranking number	Issues
1	Weak global governance
2	The weakness of the G20
3	Greater protectionism and increasing trade conflicts
4	Economic uncertainty in Europe affecting its authority as a leading power
5	Currency wars
6	Military conflict
7	Development of nuclear capacity

Source: ***Outlook on the Global Agenda 2011****, World Economic Forum, Geneva, January 2011, page 20, available on www.weforum.org.*

A switch is under way. This shifts the balance of global political and economic power away from the G7 countries to a new class of the developing world heavyweights.

This shift will alter the culture and decision-making calculus in national capitals around the world and in corporate boardrooms large and small. It will change the lives of individuals, advantaging the mobile and globally minded at the expense of the sedentary and parochial.

The longer-term implications of this shift remain unclear, but discussion within the Summit on the Global Agenda moved beyond this broad view towards a finer understanding of this trend – and of its limits. There was a general sense that the complexities implied by this notion of decoupling – a deliberate move by developing countries, particularly China, to limit dependence for growth on access to Western economies – are underappreciated. China and other export-centric emerging states will try to rebalance their economies towards increased reliance for growth on domestic demand, but this is the work of a generation, not of a single five-year plan.

In addition, the current general perception appears to be that leading emerging powers are moving forward at a common pace as developed world states remain collectively stagnant. These groups are seen respectively as the winners and losers from globalization's progress.

The participants at the Summit on the Global Agenda 2011 challenged this simplification on two counts. First, the ending of developed states is greatly exaggerated. *The financial crisis sharply accelerated the inevitable transition from a G7 international order to a G20 model*, one that provides major emerging markets with seats at the world's most important international bargaining table. Yet, leaders of the G7 countries still wield considerable influence within the G20 – and will continue to do so for the foreseeable future.

In sectors from finance to food production and from innovation to public health, *developed states remain at the forefront of funding, technology and expertise.*

Second, there is tremendous diversity and a wide range of relative strengths and weaknesses within the emerging market class – if indeed emerging markets can be consider a single coherent asset class at all. There are *enormous structural differences* even within the so-called BRIC countries. There are winners and losers from globalization within each of these states. Nor is any grouping of emerging market states likely to form a coherent political bloc. The interests of these countries are no more likely to converge than those of developed states.

The dispute for the international society in 2011 and beyond is *to look beyond artificial classifications of states towards a set of shared standards and values* that are meaningful and robust enough to withstand the volatility and uncertainty that lie ahead during an era of transition.

5. An Unpredictable World Future

As a consequence of the global financial and economic crisis, key emerging economic risks include the heightened threat of *currency wars, fiscal crisis and persistent global imbalances*, as well as the resulting *economic uncertainty*, in itself one of the most pressing challenges on the global agenda (see also table 3).

Risks of Economic Uncertainty
Table 3.

Ranking number	Issues
1	High debt levels and continued high deficits
2	Sovereign debt crises

Ranking number	Issues
3	Currency realignment
4	Competitive quantitative easing by developed nations
5	Rising protectionism
6	Manipulated exchange rates
7	A permanent increase in economic volatility

Source: ***Outlook on the Global Agenda 2011****, World Economic Forum, Geneva, January 2011, page 26, available on www.weforum.org*.

It was recognized that many governments are taking active steps to fortify particular sectors of their economy, but such policies risk stoking protectionism.

Protectionism compromises growth and many decision makers in the international community have recognized that a *trade war will finally disadvantage almost all stakeholders*. This recognition has, normally, prevented the emergence of widespread, aggressive protectionism; however, poorly designed capital controls could pose an even greater long-term threat to economic recovery.

Uncertainties also persist about the *mitigation of systemic risks* in the global economy. *Governments*, which intervened to save banks and other private sector entities, often *transferred private-sector toxic assets to their own balance sheets*. Markets have resumed relatively normal activity, but whether the fundamental problems have been addressed is another question. Imbalances in sovereign debt and the fragility of investors' faith in governments contribute to economic uncertainty. The debt crisis in Greece and Ireland raises the spectre of a new systemic financial collapse.

Capital distribution decisions must carry on and, increasingly, investments from developed economies have flowed into emerging markets. These markets typically offer more dramatic growth and have, thus far, generated strong returns for many investors. However, this trend contributes to economic uncertainty, as these markets are associated with volatility and potentially new systemic risks. In addition, growing demand in emerging markets could drive up commodity prices, and sudden price spikes – of crude oil or other raw materials – would dramatically complicate economic recovery.

A few global institutions have the power to get involved, should these uncertainties threaten the world economy. Two such institutions – *the G20 and the International Monetary Fund (IMF) – proved their relevance in responding to the financial crisis* and, in recent months, they have been *restructured* to be more inclusive and reflective of new sources of economic and political power. However, the participants at the Summit on the Global Agenda agreed it remains unclear whether these reforms will be sufficient to retain legitimacy to manage a new crisis. Furthermore, given high sovereign debts in many parts of the world, traditional monetary and fiscal policy options are likely to be unavailable.

These above uncertainties paint a rather dark picture of economic recovery, at least in the short to medium term.

One of the biggest determinants of global growth will be *political will*. If individual nations and the international community as a whole can power the political will to reform government spending deleverage and adjust to "*doing more with less*," then many of these uncertainties can be tamed. Fortunately, many policy-makers around the world have shown their understanding of the magnitude of these risks. In the EU, for example, interventions that would have been unthinkable in 2010 have already taken place, with nations recognizing the collective need to stabilize the euro zone.

6. Weakening Governance

The rising insufficiency of natural resources, food insecurity, the connection between population growth, urbanization and unemployment, coupled with decreasing development aid inflows from donors and illicit capital outflows from fragile states can further destabilize a number of nations in the medium and long term.

Economic and social disparities within and among fragile states can also become powerful drivers of conflict and state fragility.

The international community's traditional engagement in fragile states, based on development aid and security responses, has failed in many respects. New models and norms of engagement must be developed. Each state is different, posing different challenges. Therein lays the complexity – no one-size-fits-all solution exists.

A revised concept of national sovereignty: The ability of the international community to respond to situations of state fragility has been limited by state sovereignty. This is a complex dynamic paralleled by the doctrine of promoting national interest – typically in fragile states there is no pursuit of genuine national public interest. The responsibility to protect concept, based on the principle that sovereignty is a responsibility rather than a right, is just beginning to challenge the notion of state sovereignty, even when not much of a state to speak of exists. In view of new global trends, it is necessary to re-examine the concept of state sovereignty in the 21st century and explore new models of shared responsibility.

Prevention and early action: An early and coordinated response that considers the underlying causes is crucial. Inaction is usually not an option because untreated underlying issues will come back to haunt the international community sooner rather than later.

The considered application of existing tools: The pursuit of democracy through elections can trigger violence and conflict, particularly in nations where there are no loyal oppositions, severely poor governance and institutional deficits. Similarly, the pursuit of justice, for example through International Criminal Tribunals, can be a "short term irritant" to peace, although it is critical to eradicate the violence associated with fragile states.

Principles of engagement in fragile states: An important principle of engagement in fragile states is "do no harm". Others include: intervene in an integrated way; focus on strengthening the government and civil society; intervene and try to support the security sector – if this sector cannot be reformed, interventions typically fail; take consistent, long-term approaches over time; and work with the consensus of the international community and neighbouring nations. With the increasing engagement of new powers in fragile states, it is necessary to develop new norms of engagement between them and external actors to ensure investment has positive impact on these states.

The redesign of aid systems and new financing mechanisms: Participants suggested that today's new "politics of austerity" create opportunities to rethink the modalities of aid, which need a radical overhaul. It is time to look at new designs for aid and investment flows. As a major tipping point for potentially fragile states, corruption must also be tackled, along with the outflow of capital from such states. This would allow the retention of home grown capital for development.

The management of natural resources: Unless managed in an efficient and accountable way, the proceeds from natural resources can fuel conflict and undermine governance structures. The dual-key approach (shared responsibility between the international and local communities) can be applied to the management of natural resource revenues in fragile states.

The enhancement of regional and local capacities: Regional organizations and powers need to take more responsibility to mitigate the risks of instability and economic disparity in fragile states. In considering the challenges, participants also noted that cross-border cooperation on issues such as water could create a foundation for peace and economic growth.

7. Inclusive Growth and Equality

Among specialists in economic development, from multilateral bankers to academics and civil society activists, the term "*inclusive growth*" has a specific meaning: income growth that accrues to every segment of society, from poor to rich, at roughly the same pace. It stands in contrast to "*pro-poor growth*," which refers to income gains that occur disproportionately at the lower end of the income distribution.

Risks of Inclusive Growth and Equality
Table 4.

Ranking number	**Issues**
1	Increasing economic inequality within and between countries
2	Social and political volatility
3	The lack of a sustainable social safety net in many countries
4	Unequal access to education affecting women's empowerment and social development
5	Reduced productivity as a consequence of epidemics and chronic diseases
6	Disaffected youth becoming a disturbing force

Source: ***Outlook on the Global Agenda 2011****, World Economic Forum, Geneva, January 2011, page 24, available on www.weforum.org.*

The leading centre of inclusive growth is on income gains that occur through employment and productivity improvements, not through redistributive tax and transfer policies. As such, the main instruments of inclusive growth are strengthening human capital via training, education, and the promotion and protection of good health; improving the competitiveness of capital and labour markets; and prudent macroeconomic management, openness to trade, and good governance.

Inclusive growth is built on the premise that the pace and sustainability of income growth will be enhanced if it is broad-based in nature. Alternatively, income growth that derives from inherently unequal opportunities will tend to undermine long-run growth prospects by stifling incentives for broad swaths of the population, potentially sowing seeds of counterproductive conflict and instability.

So is "*inclusive growth*" the best lens through which to view and address the challenge of sustainable development? The consensus at the Summit seemed to favour taking a broader view of development than just the growth rate of income per capita and the distribution of that growth. There are myriad other indicators of the quality of life such as physical security, access to education and health services, income protection for the disabled, unemployed and elderly, access to clean energy, enjoyment of a clean environment and gender equity. The metrics exist, but there is a clear need to focus more attention on them.

Even during the current economic crisis, many countries have chalked up impressive growth rates. However, the benefits in lower echelons of society often seem inconsistent or at least hard to get out. Everybody agreed that inequality, if left to fester, could threaten national, regional and even global political and economic stability. Words like "*revolution*," "*chaos*" and "*destruction of capitalism*" were mentioned during all the discussions. Even in the case of robust democracies, it was stressed that politicians who fail to heed the call for improved living standards run the risk of being dumped at the polls.

Inequalities both within and between countries must be considered, and national and global leaders will have to do more than just optimizing the current system. They will have to make profound structural transformations that would amount to a kind of revolution. Since the problem manifests itself on so many levels, in so many ways, it needs to be tackled with a multiplicity of strategies. This interlinked portfolio approach would attend to the special needs of the poor, children, women, the elderly, migrants, tribal and ethnic groups, members of certain castes and others. It would touch on the areas of health, education, governance, population growth, microfinance and more. At the same time, the benefits of good economic opportunities must not be renounced just because they mainly benefit those at the upper end of the income distribution.

Environmental sustainability can no longer be traded off against economic development; the two must go jointly. Rather than look at the commitment to defend the environment as something negative, it was suggested that developing countries can skip rich countries in terms of quality of life by avoiding some of the excesses and missteps of the latter. A clean and safe environment cannot be a comfort available only to the privileged.

In the end, reflecting that theme, as with most other pressing challenges facing humankind, this is everybody's problem. No set of stakeholders can solve it single-handedly. Government must take the lead, but our political leaders can only be successful if they can count on the ingenuity and energetic cooperation of the business community, civil society, academia and concerned people at large.

Conclusions

In conclusions, it is clear that the 21st century is an age of risk. It is a time when the interconnectedness of all things is manifest in the tide of human affairs, and volatility – the expected change in state from one day, or one minute, to another – has amplified beyond control, leaving organizations and individuals searching for new ways to understand, manage, mitigate and respond to a variety of global risks.

The international community tries to provide a common platform for the discussion of relevant risk areas and catalysing new opportunities for a coherent risk response.

Many representatives from public and private levels propose a number of ideas that could improve the state of the world. The ideas require real initiatives that, by pulling techniques from one practice area and applying them to another, could have a noticeable impact on the identification and management of a range of global risks. Examples included applying fire-fighting techniques to the management of financial risk or humanitarian disasters, drawing from logistics to improve disaster preparedness, and applying catastrophe bond structures to other types of financial risk.

Flexible solutions need to be based on the power of interdisciplinary thinking – the ability to apply ideas and techniques from one area of human endeavour to another.

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