

What is so new about the emerging new world order?

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Author Articles, Development, economic policy



Vladimir Popov and **Piotr Dutkiewicz** examine changes in world economies.

Before 1500 all countries were roughly at the same level of development, their GDP per capita was pretty much at the same level, give or take 30%.

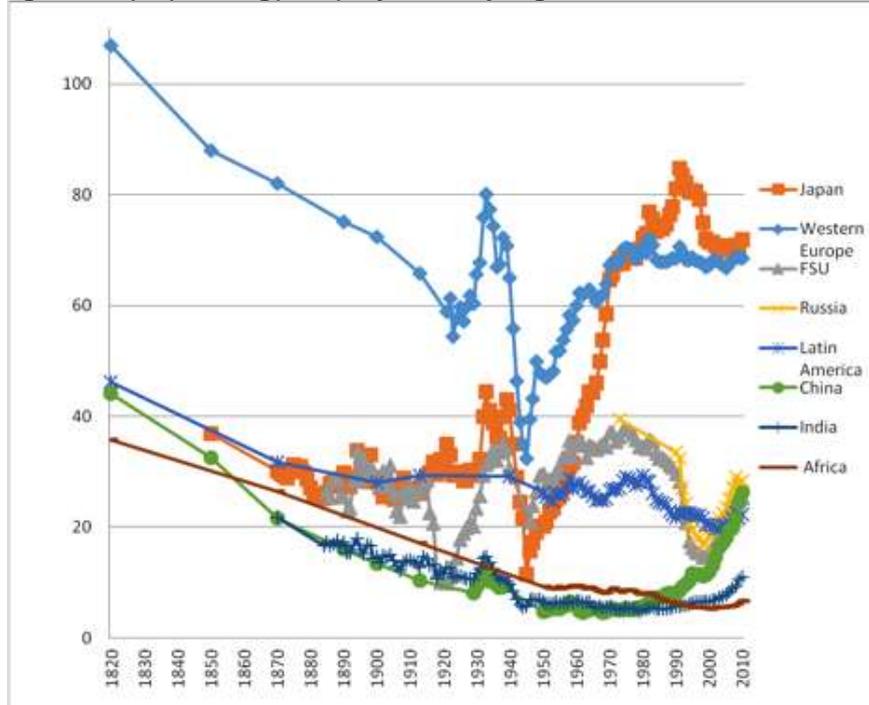
The rise and fall of nations, the emergence and collapse of the empires were driven mostly by wars, conquests, and coercion, not by economic competition. Since 1500 the gap between the West and the Rest, i.e. between countries that we now call developed and all other countries that we now call developing, started to widen, so that per capita income in the West was in 1900 on average 5 times higher than in the Rest (figure).

This average ratio – 5:1 – stayed intact for the long 20th century, but now it looks like the gap is starting to narrow. In fact, since 1950 Japan, South Korea, Hong Kong, Singapore started to catch up with the West and became developed countries by the 1970-80s. Later Southeast Asian countries, China and then India and some others joined the “rapid growth club” (figure). The average ratio of 5 to 1 (per capita income in the West / per capita income of the Rest) stayed intact in 1900-2000 despite the rapid growth of Asia and due slow growth of many Latin American, African and former communist countries of the USSR and Eastern Europe.

Usually the implications of rise of the Rest are seen in forthcoming geopolitical shifts (China as new rising superpower together with or instead of the US), in emerging shortage of resources leading to the new increase of raw material prices, etc. But there may be less expected and more far reaching consequences as well.

First, the rise of the Rest, if continues, would become the turning point for the world economy because for the first time in history the successful economic development on a major scale is based on indigenous, not Western-type economic model.

Figure. Per capita purchasing power parity GDP in major regions and countries as a % of the US level in 1820-2010



Source: Maddison project, <http://www.ggd.net/maddison/maddison-project/data.htm>

Development thinking of the second half of the XX century can hardly be credited for “manufacturing” development success stories. It is difficult, if not impossible, to claim that either the early structuralist models of the Big Push, financing gap and basic needs, or the later neo-liberal ideas of Washington consensus that dominated the field since the 1980s have provided crucial inputs to economic miracles in East Asia or elsewhere. On the contrary, it appears that development ideas, either misinterpreted or not, contributed to a number of development failures. USSR and Latin America of the 1960s-80s demonstrated the inadequacy of import-substitutions model (debt crisis of the 1980s in Latin America and dead end of the Soviet type economic model in the 1970s-80s). Later every region of developing world that became the experimental ground for Washington consensus type theories, from Latin America to Sub-Sahara Africa to former Soviet Union and Eastern Europe, revealed the flaws of neo-liberal doctrine by experiencing a slowdown, a recession or even a severe depression in the 1980s-90s. Meanwhile, in East Asia fast economic growth was manufactured by the experimentation of the strong hand politicians without much theoretical justification.

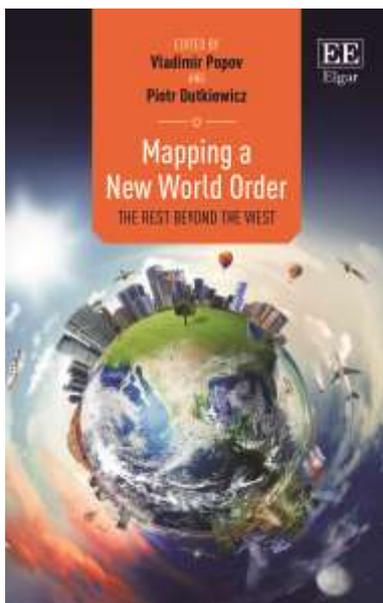
Naturally, East Asian and in particular Chinese growth model became extremely appealing in developing world: it was not based on conventional Western economic theories, but was “working”, ensuring successful catch-up development. The attractiveness of the Chinese model of economic growth today can be compared with the popularity of the Soviet model of catch up development in the “third world” in the 1960s. Even though the Soviet model collapsed, the Chinese model became the logical and natural heir of the Soviet model – it is no longer a centrally planned economy, but it is by no means a model of a liberalized market economy that is recommended by the advocates of Washington and even post-Washington consensus.

Second, the rise of the Rest can lead to the profound reform of world economic order and international relations. Many growth-promoting instruments that are now regarded as unfair are likely to gain legitimacy. Trade protectionism, industrial policy, undervaluation of the exchange rate via accumulation of foreign exchange reserves (arguably, a variety of export-oriented industrial policy), control over the international capital flows (not only short-term, but FDI as well) can become legitimate tools of the catch up development. There may be new regime of protection of intellectual property rights and technology transfers, new regulations for international trade in energy and resources, new rules for international migration, adoption of

preferential environmental, labor, safety and other standards for developing countries (proportional caps on emissions, for instance, are unfair to the South, where per capita emissions are much lower than in the West).

Besides, the principles of international relations can change radically as well. "Beijing consensus" may not yet be a rigorous term, but it is clear that the Chinese approach to international politics (no interference into domestic affairs, no military interventions, no trade embargoes) provides the developing world with the real alternative of building relations with other countries. China rejects the use of force, embargoes and sanctions in international politics nearly as a matter of principle. Even in its relations with Taiwan China was always pushing for wider economic and cultural exchanges, whereas Taiwan authorities resisted. The new rules of the international relations may (1) explicitly limit the use of force only to cases of severe violations of non-political rights (i.e. mass repressions, hunger, ethnic violence, etc.) and prohibit the use of force against liberal authoritarian regime (just for the sake of "establishing democracy") and (2) prohibit unilateral military interventions (without the consent of the UN).

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[Mapping a New World Order: The Rest Beyond the West](#), edited by Vladimir Popov and Piotr Dutkiewicz is available now.

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