

**GLOBAL
POWER
SHIFT**

to the

EAST



1) Expansionist Dynamic within World Capitalist System

- Expansionist dynamic within the system:
Capitalism cannot stand still, but must always be either expanding or contracting.
- **The rise of new growth sectors and new growth zones >> powerful magnets for investment**
- Capital continuously looks for higher profit rates to satisfy its expansionist dynamic. It manages to avoid all borders/ restrictions.

2) Falling rate of profit

- The **tendency of the rate of profit to fall**: the [rate of profit](#)—the ratio of the profit to the amount of invested [capital](#)—decreases over time. Not only Marx, but also classical economists such as Adam Smith, John Stuart Mill and Ricardo talks about the **tendency of the rate of profit to fall** as an empirical phenomenon.
- Marx regarded the **tendency of the rate of profit to fall** as a general tendency in the development of the capitalist mode of production. This is one of the central contradictions of capitalism. Capitalism is not a rational system as a whole, but rather an anarchic one. From their own perspective, individual capitalists may make entirely rational decisions as they drive towards their own expansion and profit. But this is often at the expense of a wider, logical coordination amongst capitalists as a whole.

“Falling rate of profit” in history

- From late 1960s until 1982, profit rates fell continuously.
- **Mid-1970s and early 1980s witnessed deep economic recessions.**
- Growth slowed, profits slumped, unemployment increased seriously.
- Main reason: **Competition**

New growth centers:

- **In the late 19th century, the US was a dynamic new growth center, attracting very high levels of investment from Europe.**
- In the post-WWII period, Western Europe and Japan became the new growth centers
- **Since 1980s, East and Southeast Asia have become new growth centers.**

Increased COMPETITION with the rise of new growth centres> Falling profit rates> the loss of relative weight of the US...

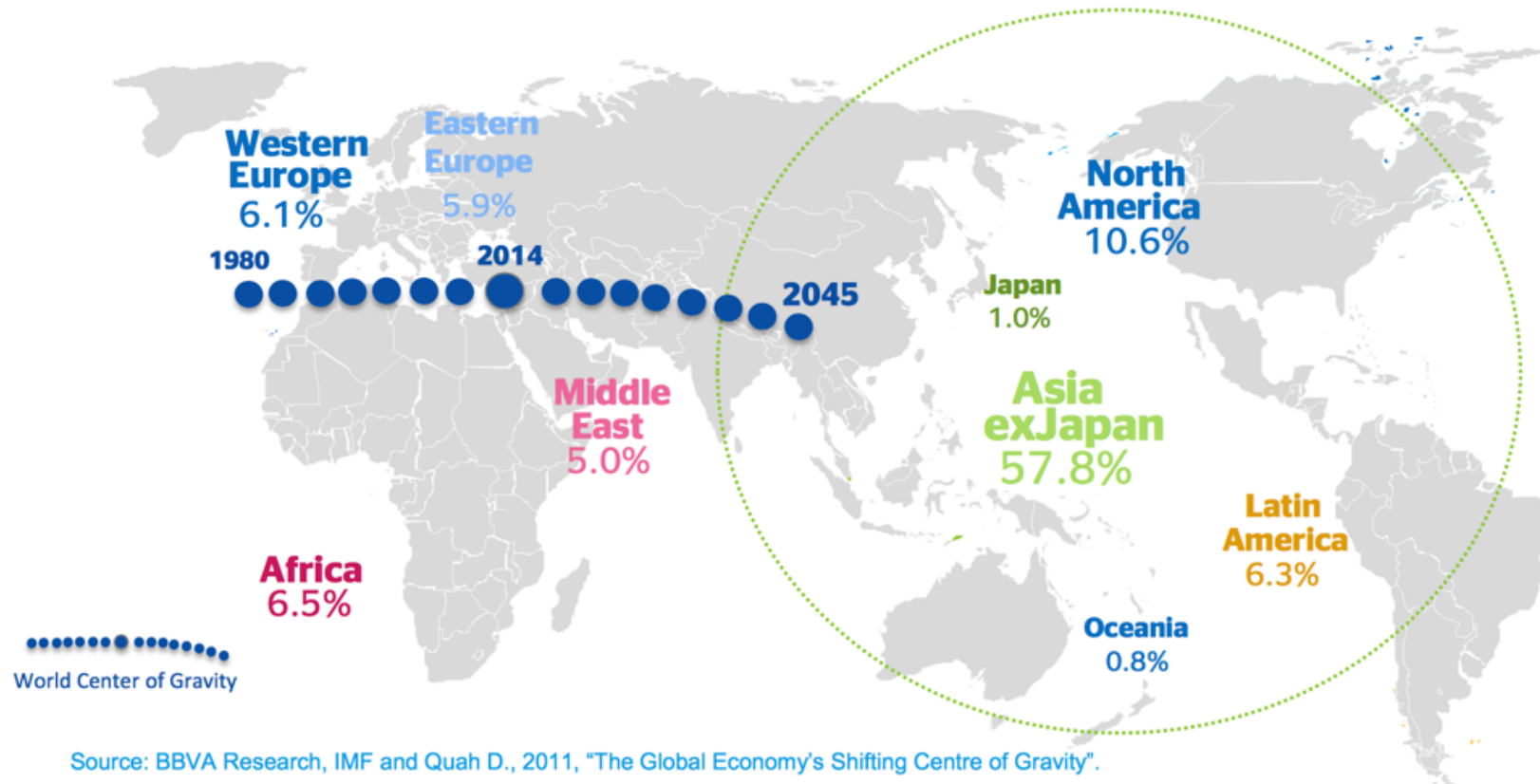
- **1970s: competition from Germany and Japan**
- **1980s: competition from southeast Asian capital**

Economic gravity in the world system has shifted

- from a point in the **Atlantic in 1980** to
- a location in **southeastern Mediterranean in 2008.**
- The center is now retracing its footsteps **towards the East**, and
- by **mid-century**, the center will lie **between India and China.**

Shifting the economic centre of gravity from the Atlantic to the Pacific area

Regional contribution to world growth in the next ten years (%)



Global growth will be concentrated in the **Asia-Pacific** region, which will account for **76.5%** of the increase in GDP between 2014 and 2024.

How this decline happened?

- USA's central place in the global economy, from 1945
- **Post-WWII ruin in Western Europe and Japan**
- US, the only stable power capable of determining a new world order

It wasn't just because of cheap labour in China,
India (and other Emerging Economies)

- **Fast-rising home-grown consumer class in Emerging Economies.**
- **China:**
 - world's third largest travel market,
 - largest market for automobiles,
 - biggest base for mobile phone subscribers.

Should all this be surprising?

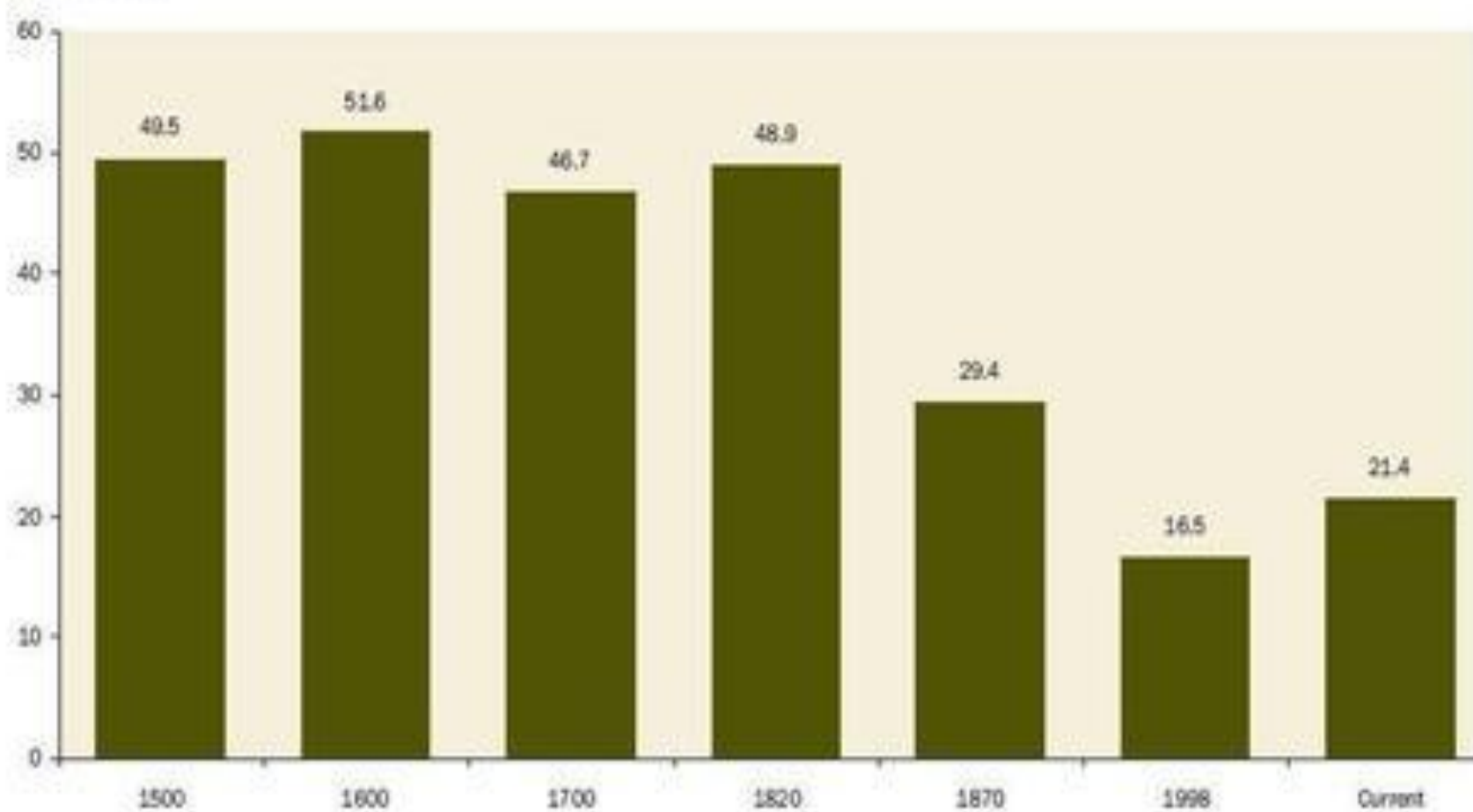
East Asia has, for most of human history, been dominant economic centre.

Until 1820s:

- * China and India accounted for 75 % global GDP,**
- * more than 50 % of global trade,**

CHART 5: "CHINDIA" CAPTURING MARKET SHARE IN GLOBAL GDP

China-India Share of Global GDP
(percent)



Source: Bloomberg, Gluskin Sheff

‘changing global economic map’

- **‘Old geographies of production, distribution and consumption are continuously being disrupted, and new geographies are continuously being created. In a sense, the global economic map is always in a state of becoming’.**

- **(Peter Dicken, *Global Shift*, 2007)**

hegemonic shifts

- The vast shifts in the structures of global system are the outcome of changes that have been taking place beneath the surface over years, if not decades.
- Financial speculation, credit crunch, and economic downturn are the clearest signs that we are in the midst of a hegemonic transition, analogues to the Dutch-to-British and British-to-US transitions.

the dollar is losing ground as the world's reserve currency

- **“The dollar looks awfully like sterling after the First World War,”** said David Bloom, the HSBC's currency chief, June 2009.
- Regional currencies would emerge as the anchor for their smaller trading partners, with China, Brazil, or South Africa substituting the role of the US. Australia is already linking its fortunes to China through commodity ties.

Dollar's dominance is steadily declining

- “The days of the dollar being the world reserve currency are fast coming to a close” (ITM Trading, August 2023)
- **The US dollar's dominance in global trade and finance is steadily declining**
- While the dollar has been the world's preeminent currency in global markets, its share of global foreign exchange reserves has been falling gradually. According to the IMF's Currency Composition of Official Foreign Exchange Reserves (COFER) data, **“The share of reserves held in U.S. dollars by central banks dropped by 12 percentage points since the turn of the century, from 71 percent in 1999 to 59 percent in 2021.”**

Paul Kennedy, 29 August 2009

- **As China, India, South Korea, Brazil, Mexico and Indonesia all ‘catch up,’ the American share of things will relatively shrink. Sooner or later — and this debate really is about ‘sooner’ or ‘later,’ not about “if” — we are going to witness another major shift in the global balances of power.**

A Global Power Shift in the Making

- The transfer of power from West to East is gathering pace and soon will dramatically change the context for dealing with international challenges -- as well as the challenges themselves. Many in the West are already aware of Asia's growing strength. This awareness, however, has not yet been translated into preparedness. And therein lies a danger: that Western countries will repeat their past mistakes.

(*Foreign Affairs*, July/August 2004)

Global Power Shift

- **As globalisation has advanced in recent decades, emerging markets such as China, India, and Brazil have expanded their economic importance, and Asia's economic importance growing.** *(Federation of German Industries, 2019)*

recognition lag

- Changes in the status and power of nations, just like changes in economic conditions, are not always immediately apparent. There is a **recognition lag** between the time when an economic shock, such as a sudden boom or bust, occurs and the time when it is recognized by economists, central bankers and the government.

In the aftermath of World War II, Britain and France, the two leading imperial powers, were still continuously referred to as **Great Powers**.

It was not until the late 1950s that the diminished status of Great Britain and France was widely recognized and the adjective "**great**" was finally dropped.

China's transformed the world!

- BY MAKING things and selling them to the world, China's transformed itself, and the world with it.
- **In 1990 it produced less than 3% of global manufacturing;**
- its share now is a quarter.

“Factory China”

- China produces about 80% of the world's air-conditioners, 70% of its mobile phones and 60% of its shoes.
- **This “Factory China” now makes almost half the world's goods.**

How does the U.S. respond to China threat?

- The Trade Expansion Act of 1962, the Trade Act of 1974, and other legislation has given the president the power to levy tariffs and other trade measures if he determines that it is necessary for the country's security.
- **Washington has used these and other tools to counter China's economic policymaking.**

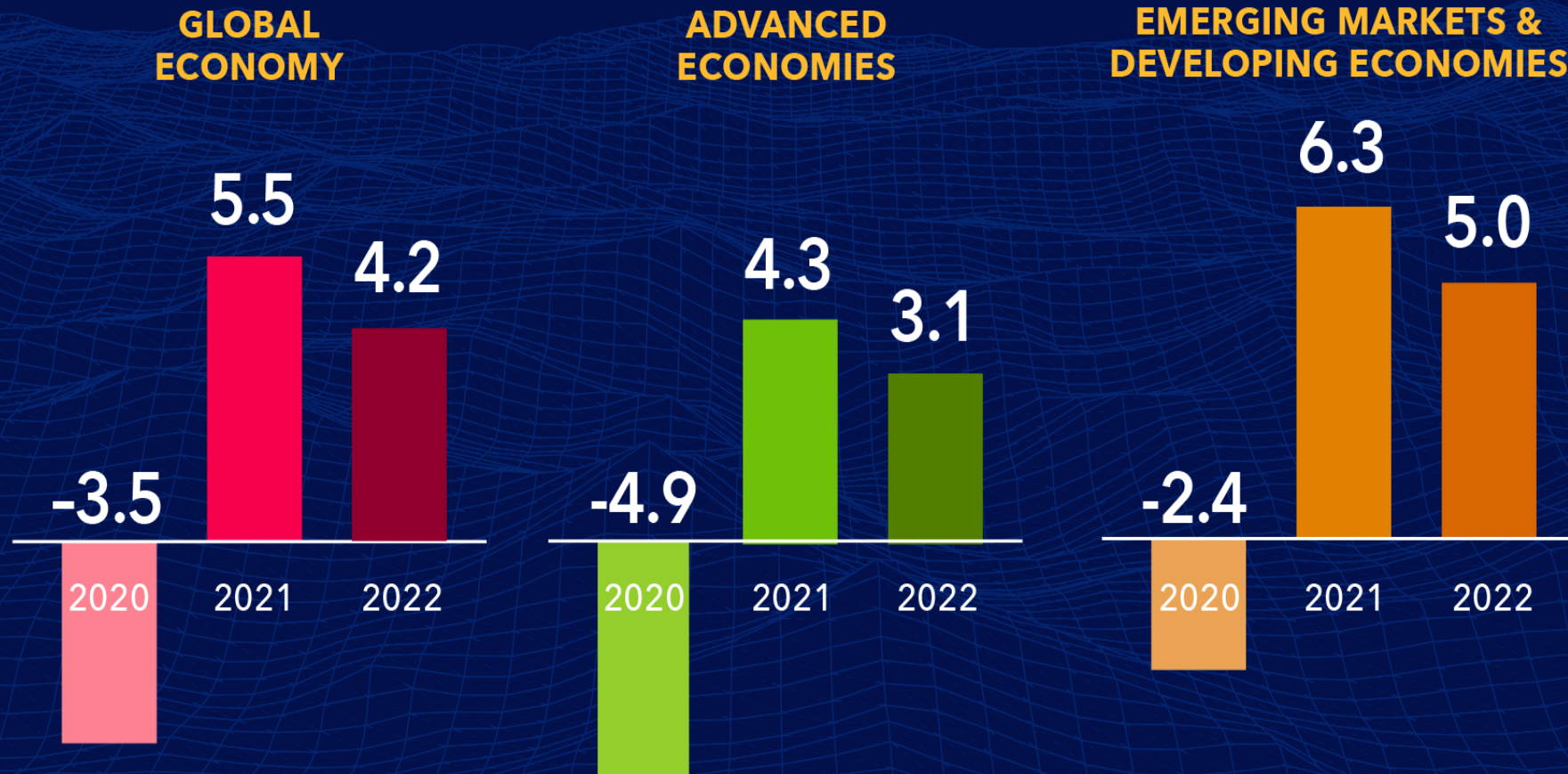
Consequences

- However, all these hurt economic growth for the US and many other countries.
- **There was a fall on stock markets amid growing concerns that trade war will have a significant impact on investment and global supply chains.**

Martin Wolf, FT

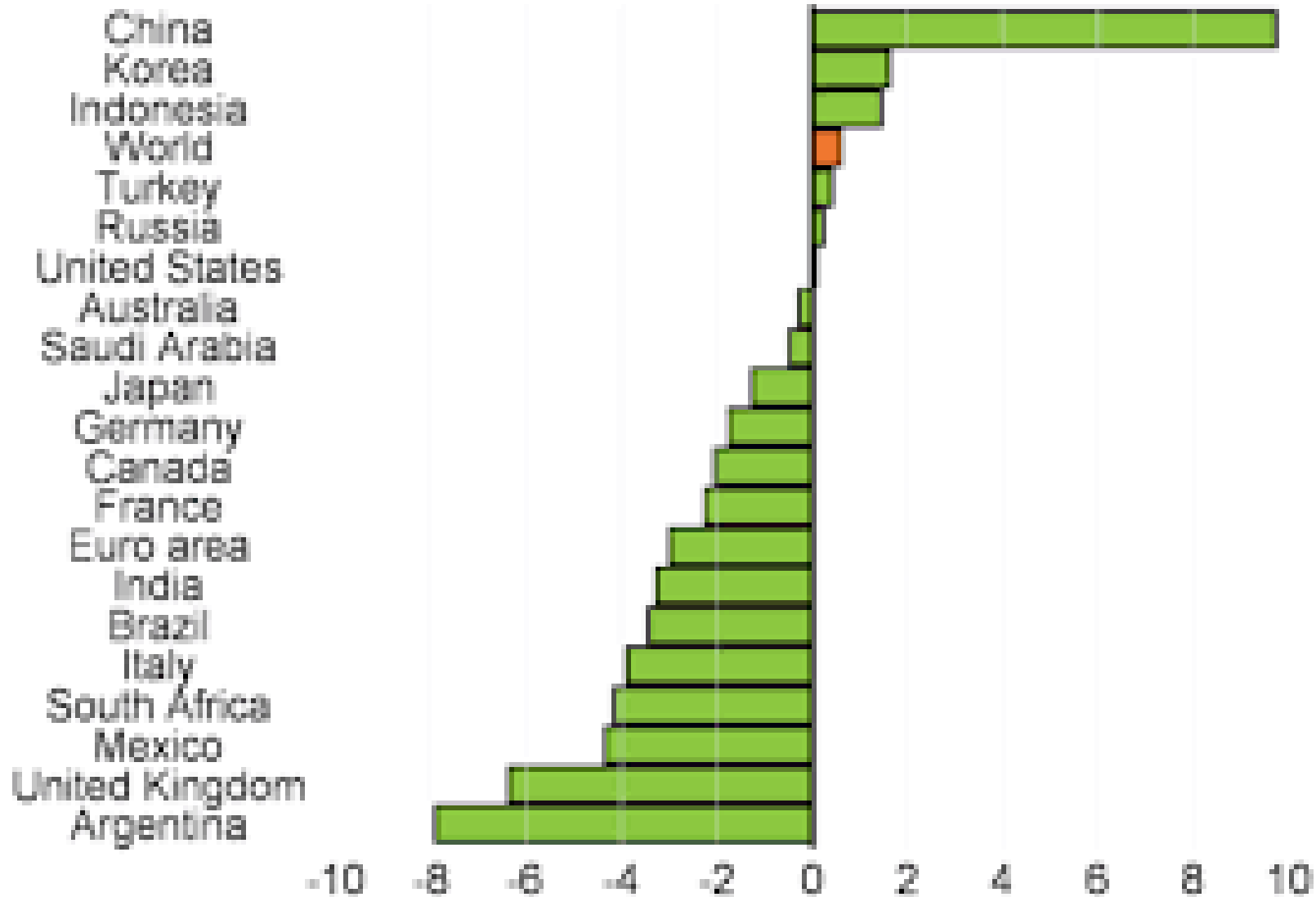
- **“Trump’s war on the liberal order ... will break down the separation between commerce and national security, raising the risk of significant escalation of conflict. ...of military conflict...Trump’s narrowly transactional approach, driven by ignorance and resentment, risks disaster... The foundations of the post-war economic and security order ... are now in doubt” (3 July 2018)**

GROWTH PROJECTIONS



China leading the recovery

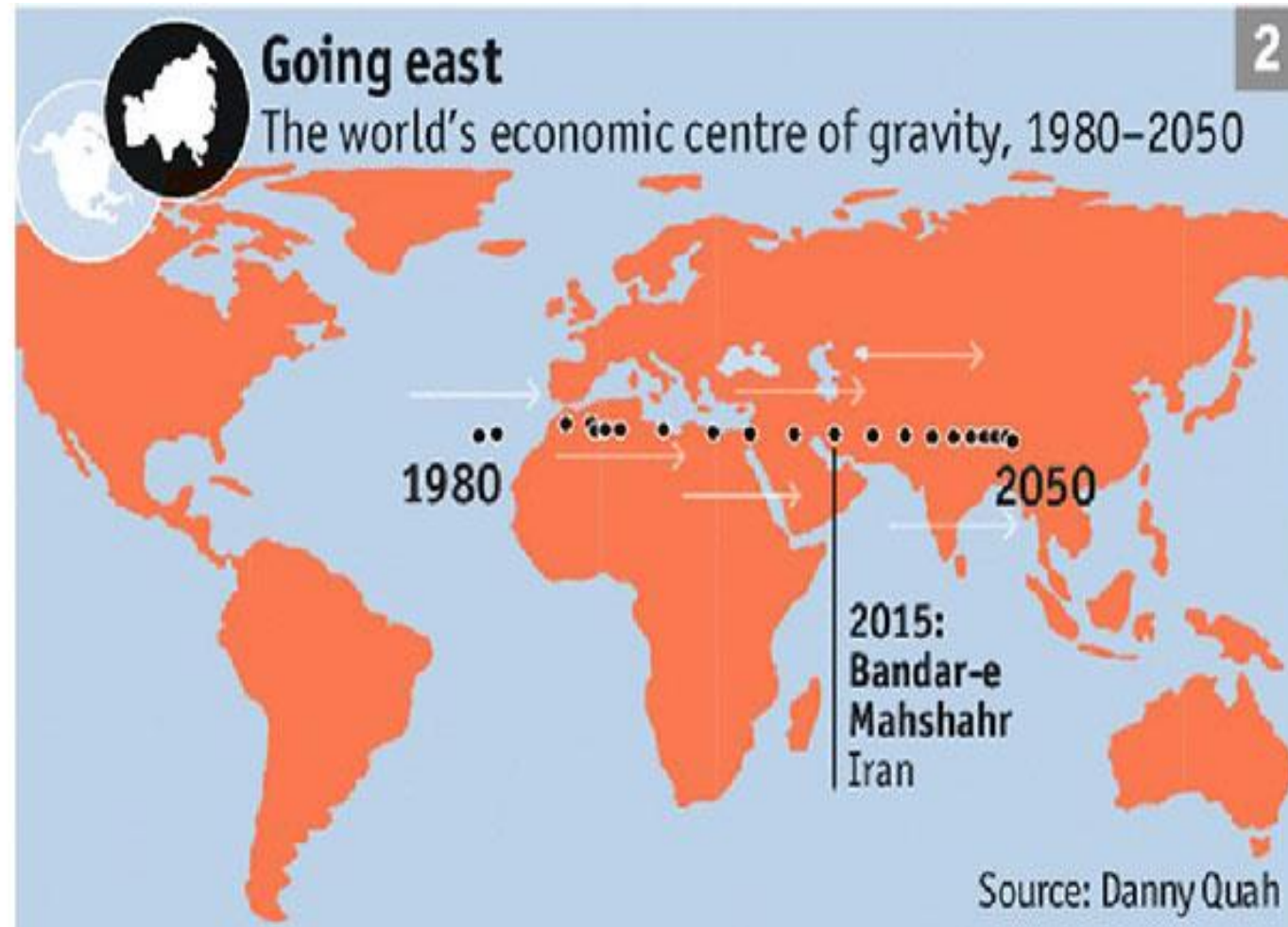
- **China's economy** grew 18.3% in the first quarter of **2021**,
- The largest quarterly **growth** figure since **China** began keeping records in 1992.
- An indication **China's** robust recovery is continuing.



World economy in 2021: here's who will win and who will lose

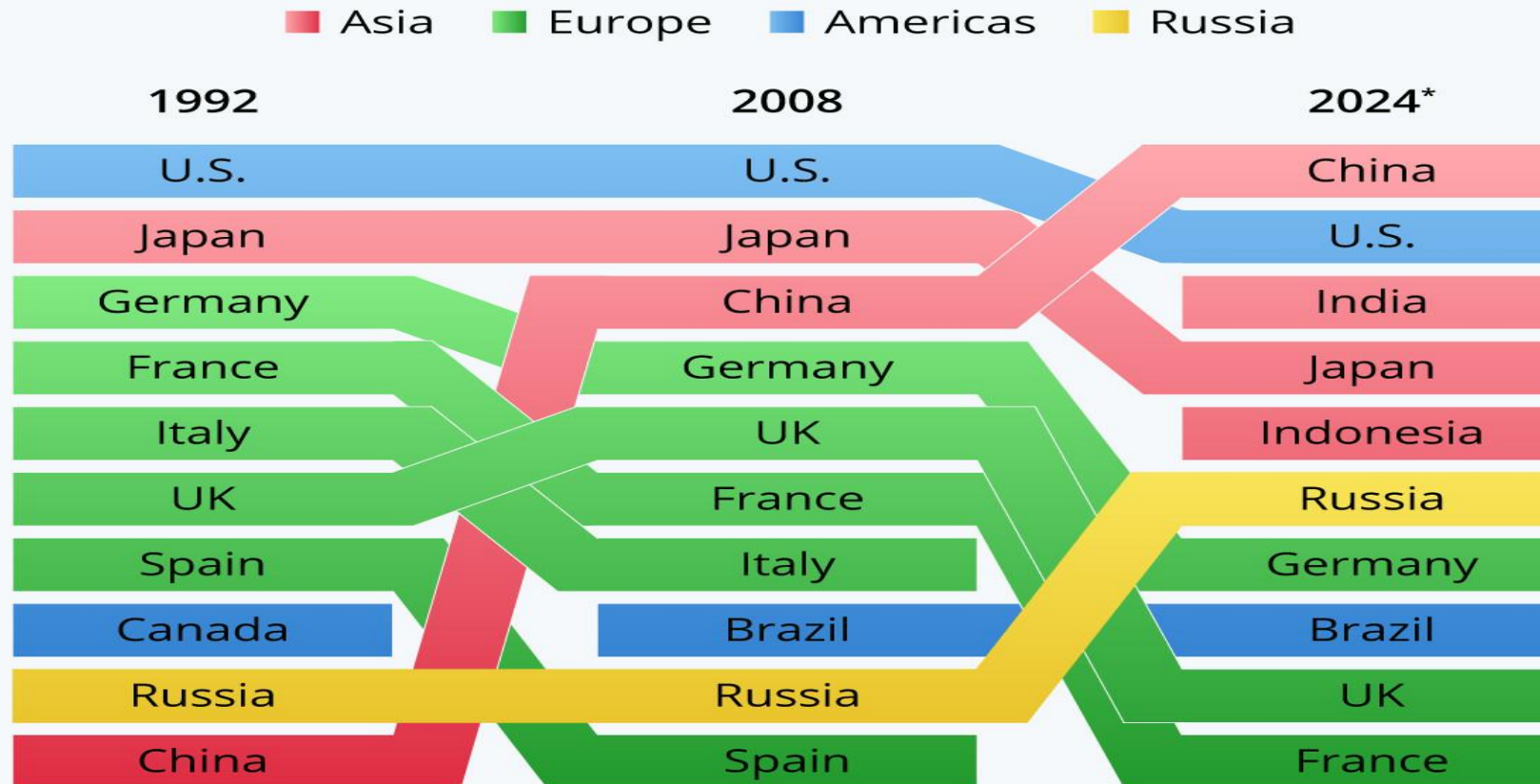
OECD GDP projections (Q4 2021 vs Q4 2019)

Global shift to the East



Continental Shift: The World's Biggest Economies Over Time

Countries with the highest GDP on Earth
in 1992, 2008 and 2024*



* projection

Source: World Bank and IMF



Emerging markets will dominate the world's top 10 economies in 2050 (GDP at PPPs)

	2016	2050	
<i>China</i>	1	1	<i>China</i>
<i>US</i>	2	2	<i>India</i>
<i>India</i>	3	3	<i>US</i>
<i>Japan</i>	4	4	<i>Indonesia</i>
<i>Germany</i>	5	5	<i>Brazil</i>
<i>Russia</i>	6	6	<i>Russia</i>
<i>Brazil</i>	7	7	<i>Mexico</i>
<i>Indonesia</i>	8	8	<i>Japan</i>
<i>UK</i>	9	9	<i>Germany</i>
<i>France</i>	10	10	<i>UK</i>

E7 economies
 G7 economies

Sources: IMF for 2016 estimates, PwC analysis for projections to 2050