Changes to the global economy

As an introduction, it is important to remember that the historical background meaning the first and the second World War and the cold war created deep economic problems. The economic global system crossed a lot of significant events, from the great depression to the stagflation.

One of the major development in the world economy from 1980 is the massive neo-liberalism wave. We will consider the Washington Consensus as the roots of our analysis. Formulated by John Williamson in 1990, it is a set of economic policies within the international communities working at the World Bank and the International Monetary Fund. It is a redirection of public expenditure priorities toward fields offering both economic returns and the potential to improve income distribution to help failing economies in front of their massive debts. Then, the term was linked with neo-liberalism process or even globalization process. The neo-liberalism that the world is handling was spreaded out from the anglo-saxon world to the Occidental world and then to the whole world and based on the privatization, cross-border trade, reduction of the deficit spending… But these system has some limits and in 2008, speculation exploded in USA. The 15th of September, a big investment bank called Lehman Brothers defaulted, spreading a global financial crisis. US, UK and European governments were involved into rescue plan within institutions avoiding a world paralysis of the system.

A second major development in the world economy from 1980 is a switch of the balance of powers between countries. The developed countries run over the developing countries. The economic system permits to enrich the richer and impoverish the poorer but not only between countries but as well within countries. The gap became bigger not only between developed and developing countries but also between poor and rich people within developed and developing countries. It is kind of a vicious circle because the economy part it closely linked to the poverty problem. According to Fisher, " as far as economics is concerned, the big challenge is poverty[1]". As an evidence of poverty and global inequalities, there are two main available indicators. The first one, given by the World Bank, is the ratio of absolute poverty. It is " the percentage of the population living on less than $1. 25 a day at 2005 international prices[2]". At the time the text was written, the ratio considered people leaving on less $1 a day at 1993 international prices. Even if from 1987 to 1999, the world ratio of absolute poverty decreased from 28, 3 % to 23, 2 %, the same ratio without China and in term of absolute number increased from 880 millions to 945 millions. Indeed, China's population accounted for 38 %[3]of the world population at that time (19 % today) so nuances between countries need to be specified to have a good understanding of the overall world situation. The second one, given by the United Nation Development program, is the Human Indicator Index. It ranks countries according to their level of development. It measures three dimensions, long and healthy life, acquire knowledge and decent standard of leaving, and integrate into one index[4]. Again, if from 1980 to 2000, the global HDI increased, that does not mean that " everyone in the developing countries is doing better[5]".

So as a conclusion, indicators have to be manipulated really carefully as well as the weight of every countries and their individual situation.

The economic situation is more and more complex because there is an increasing number of emerging countries which are redefining the concept of power. Within the developing countries, there is huge development and wealth inequalities. The BRICs appear to be a consensus within this definition. So who are they?

It is in 2001 that the notion appears, permitting to describe a temporary and spontaneous world balance. In 2014, the four BRIC countries became the BRICS corresponding to five countries: Brazil, Russia, India and China. They represent 25 % of the earth’s land surface, 42 % of the world population and 15% of the world GDP. Each of these five countries offer comparative advantages. Agricultural products for Brazil, energetic resources for Russia and Africa, manufactured goods for China and tertiary services for India. The last ten years, they underwent an important average annual growth whereas the European union one was only 1, 5 and became major actors of the world economy.

Despite of disparities, they have a lot of assets to weight against the giants of this world. They are nuclear giant, energetic giant, demographic giant and permanent member of the security council. Their economic development can be explained by different reasons. First of all, there were an opening from these countries where before the economy was controlled like Russia, India or China. Then, they increased the work force available at a global level. Finally, they decreased the cost of manufacturing goods and indeed, favoring the growth of other part of the world. These growth increased the demand of goods, consumption and mineral, involving the growth of some other parts of the world. Commercial trade increased by 4 since 1990. They are also fighting for a more fair position within the international organization like united nation security council, and for rebalanced the voting right within the World Bank and the the International Monetary Fund[6].

In spite of their global influence, they are getting out of breath since couple of months. That is why, some economists, like Laurence Daziano[7], predict the coming of a new group of countries, the BENIVMs: Bangladesh, Ethiopia, Nigeria, Vietnam and Mexico These time, Daziano created more clear, coherent, fix and long run criteria. She considers five criteria: economic growth, population of at least 100 millions inhabitants, urbanization (need of infrastructures) and political stability.

But it is a realist critic against the BRICS?

During the last decades the world has witnessed a worldwide trend away from rather closed economic systems (Import-Substitution Industrialization, Socialist Planned Economies) towards more open and more market-based systems. Why this has happened and what did it bring?

To explain this phenomenon, I will support the modernization theory who explains the development notion through an historical origin. Different criteria can explain this evolution: the rise of the US as a superpower after the Second World War and as a model to follow; the birth to many new nation-states in the Third World which were in search of development model, the US identified the threat of communism in post-war Europe and in the Third World believing that economic recovery and modernization and moved them along the path of the US, and thus they would move away from communism; the economic recovery of Western Europe strengthened the ideology. Development is a universal, spontaneous, irreversible process inherent in every single society rather than a concrete historical process taking place in specific societies during specific periods. Development is regarded as an evolutionary perspective. Modernization policies are not only seen as elements of a development strategy, but as universal historical forces. It bears a strong resemblance to the transition from feudalism to capitalism in Western economic history. Development implies structural differentiation and functional specialization. The process of development can be divided into distinct stages showing the level of development achieved by each society. There were five stages through which all developing societies had to pass: the traditional society (limited production, absence of modern science and technology, agricultural based, clan-based polity, and fatalistic mentality); the pre-take-off society (many traditional characteristics removed, agricultural productivity increased, effective infrastructure created, new mentality and new class appeared); take-off (most crucial, economic development obstacles removed, national income raised, certain sectors developed faster); the road to maturity (modern technology disseminated from the leading sector, the whole economy moves to mass consumption) and the mass consumption society (today in the West)

According to Kornai, this switch from socialism to capitalism brought two obvious positive changes. The first one is that capitalism means democracy. It is historically proved than a democratic model is not possible in an another system than capitalism. Ones of the mains features of a capitalist society is the individual property and market forces. Kornai assesses that “ there has been no country with a democratic political sphere, past or present, whose economy has not been dominated by private ownership and market coordination[8]”. But as a critic, he admits that this condition is not enough by itself in the long run.

The second positive contribution of a capitalist system is the mechanic improvement. The dynamic of a capitalist system leads to a wish of increasing the profit and by doing so an improvement of innovation which is bringing improvement of telecommunitions: facilitate trades, mobile phone, way sheaper and accessible in all aprt of the world. There is a raise of internet, all over and all aprts became possible and more easily accessible.

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