US economic decline forges new world order

- Foreign

2009-10-04 13:09

ISTANBUL, Oct 4 (AFP) -- The crisis is redrawing the world map of economic power as the influence of US consumer spending declines and major emerging markets like China and India take the lead, finance chiefs said.

"One of the legacies of this crisis may be a recognition of changed economic power relations," World Bank president Robert Zoellick said Friday in Istanbul ahead of annual meetings of the World Bank and the International Monetary Fund.

"Recent forecasts show that China and India are helping to pull the global economy out of recession.... A multipolar economy less reliant on the US consumer will be a more stable world economy," he added.

Consumer spending accounts for around two-thirds of economic activity in the United States -- by far the world's biggest economy -- and experts say lower spending could have radical effects on the US's world standing.

The IMF on Thursday forecast emerging and developing economies would grow 5.1 percent in 2010 -- in contrast with just 1.3 percent in advanced economies.

China's economy was projected to grow by 9.0 percent next year and India's by 6.4 percent -- far ahead of 1.5 percent expansion in the US economy.

"The American engine is not as strong as it was before," IMF managing director Dominique Strauss-Kahn said in a speech in which he called for emerging markets to be given more say in the IMF's decisions.

"Emerging economies are becoming more and more the real partners," he said.

In a BBC World debate on the crisis held in Istanbul, Niall Ferguson, a professor of business administration at Harvard Business School in the United States, said: "The crisis has accelerated a shift from west to east."

"That means rebalancing not only economically... but rebalancing geopolitically, which I think makes some people nervous," Ferguson said.

"For the foreseeable future the US will be growing at a much lower rate while China is in fact growing at a much faster rate," he added.

The shift is having far-reaching effects around the world.

In Latin America, IMF economists said the crisis is affecting countries differently depending on whether, like Mexico, they are more closely tied to the United States or, like Brazil, they have more links with China.

"If it was not for China we wouldn't have seen positive growth in the second quarter in Brazil," Ilan Goldfajn, chief economist at Brazilian bank Itau Unibanco, said at an IMF-organised conference in Istanbul.

Goldfajn said the world would now start to "rebalance towards Asia."

Marek Belka, head of the IMF's European department, cautioned however that for European countries, "demand from Asia is not enough -- the recovery rests on the shoulders of European consumers and investors."

This upheaval is changing institutions too, with the G20 group of developed and emerging economies turning into the main forum for international economic policy and strengthening the IMF as a guarantor of global stability.

The IMF has bailed out countries around the world in recent months and its members have tripled its lending resources to 750 billion dollars (515 billion euros).

Strauss-Kahn has more ambitious plans yet and is seeking more funding to strengthen the IMF's role as a global lender of last resort.

"Our ultimate goal is financial and economic stability," he said in a speech in Istanbul at which he outlined plans to even out global economic imbalances.

The G20 summit in the US city of Pittsburgh last month also agreed to give more voting shares to emerging and developing economies in the IMF and the World Bank -- a reflection of the shift in economic power.

The World Bank's Zoellick has also argued that developing countries in Southeast Asia, Latin Amercia, the Middle East and Africa should be seen as future "engines of growth" rather than recipients of charity from rich nations.

In a recent speech in Washington, Zoellick said: "The old international economic order was struggling to keep up with change before the crisis.... It is time we caught up and moved ahead." *(By DARIO THUBURN/AFP)*

MySinchew 2009.10.04
http://www.mysinchew.com/node/29809