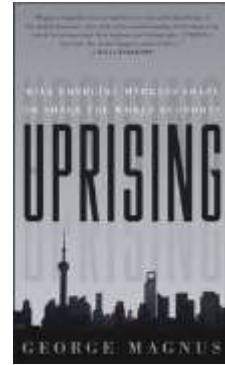


GEORGE MAGNUS, UPRISING. WILL EMERGING MARKETS SHAPE OR SHAKE THE WORLD ECONOMY?
UNITED KINGDOM, JOHN WILEY & SONS, LTD, 2011.



Book review by Nubia Nieto¹

Reading about emerging markets is a common place nowadays, however George Magnus, who is a Senior Economic Adviser at UBS Investment Bank in London, presents an interesting perspective about the new powers that shape the world, not only in financial terms but also in demographic, environmental, political and judiciary.

Magnus highlights the increasing economic power of Brazil, Russia, India, and particularly China (BRICs), however he observes that these countries have still institutional weaknesses, which can be crucial to consolidate or undermine their power.

The public commentator indicates that the emerging markets need to overcome some key challenges to strengthen their global power: ageing population, develop cultures of innovation, balance economic growth with green development, and implement political reforms and good governance, as well as the application of the rule of law. Not to mention, their ability to assume global responsibilities.

The growth in emerging and developing countries' share of world Gross Domestic Product (GDP) in the last 20 years has been significance for inhabitants who have either experienced a rise in their standard of living or been lifted out of relative poverty, but the importance goes further: their influence in the global dominance.

Magnus notes that developing countries export already about \$6000 billion, or nearly two-fifths of the global total, and the rise of emerging market companies has been meteoric. In 1990, there were barely two dozen companies head-quartered in

emerging nations with individual sales over \$1 billion per year. In 2008, there were about 560 and 111 of them had sales over \$10 billion. Three companies, Petrochina, China Petroleum and Gazprom, had sales in excess of \$100 billion.

In following with Magnus, since 1990 the income per capita in China trebled to about \$1000 in the decade to 2000, and trebled again to \$3000 in the following years to 2008. The current prediction is that per capital income will reach \$9000 by 2020, \$20,000 by 2030, and \$33,000 by 2050.

On the opposite sense, the analyst points out, the West is confronted to the decline and decadence. The 2008 and 2009 crisis involved a near collapse of the world's financial system, precipitated a global recession and led to the decline in world trade for almost 80 years. Global banks may have incurred around \$2500 billion in losses, and Western governments were forced to intervene in unprecedented to stabilise the banking system. Unemployment and impoverishment of the West's population is more than ever present.

As for the US, Magnus says that this country has experienced not only a financial crisis, but also a decline of power. A case in point, between 2000 and late 2009 the total debt owed by the US government, households and companies rose from 180% to about 240% of GDP. Besides, during this time, debts owed by financial companies rose from 65% to almost 120% of GDP. In less than a decade, he stresses, the US national debts rose by as much as it had done in the previous two decades. Total government debts, including that owned by other government departments, stood at \$12,900 billion at the end of 2009, or roughly 90% of GDP. In this context, the status of the US as a dominant power has been damaged seriously.

Certainly, the decline of the west is accelerated by the financial crisis. Although, Magnus underlines that the west continues having one of the most import strength: The rule of law.

According to the specialist of economy, law is about rules that govern contracts, property rights and human rights, as well as being the bedrock of criminal, constitutional and administrative structures. The law is the source of durable

economic strength and power, and crucial to the sustained accumulation of capital over generations.

Magnus analysis the development of law in Anglo-Saxon countries, in which primacy is accorded to the judiciary over the state and then political parties. He also examines the law in continental European countries, where the roles of the judiciary and the state power are reversed, reflecting a different legal evolutions; this scheme was captured by the French King, Louis XIV's, alleged declaration: "L'état, c'est moi". On the other hand, he argues, in Asia, some aspect of these two models have been imported over time, but in China (and also Japan and other countries with strong central authorities) the party is the principal source of authority, to which the state and then the judiciary are subservient. The most significant difference in this last model is the lack of an independent judicial system.

In this perspective, Magnus indicates that in China, for example, there is "rule by law", rather than "the rule of law". In other words, he explains, instead of a creative and innovative process of court-administered laws that change continuously to reflect changing political and social values, change grows not out of the legal system but only as a result of government and diktat. This trends lead to ambiguity, unpredictability, the protection of vested interests and corruption.

The adviser for international markets outlines that China has implemented a new legal system with some changes in property rights. Nevertheless, the real problem is that has not consistently enforced legal framework that allows the judiciary system to be a credible third party enforcer of contracts. Its courts are constitutionally subservient to the Communist Party and to their political whim. And they have a reputation for lack of competence and independence, are prone to political interference and judicial corruption and get protection from local government in the adjudication of judgements.

For instance, Magnus sheds light on that in December 2008 Liu Xiaobo, Nobel Peace prize in 2010, and a human rights activist received an 11-year sentence for "subversion", not to mention the escalating official campaigns against activists and human rights groups. In addition, in 2010 strikes and suicides brought industrial

unrest and massive pay hikes to numerous factories in southern China, where the country's manufacturing hub is located. Although there are not official data, says Magnus, there may have been about 90,000 incidents of social unrest (many involving deaths) in each year between 2006-2009 ranging from individual protest to unorganised outbursts. In this scenario, the expert in financial crises indicates that this situation could reach much larger implications, claiming political participation and institutional reforms than simply the suppression of domestic issues and corruption allegations.

The efficiency and quality of economical institutions soon or later must be accompanied with strong institutions comprises good governance, the rule of law, protected property rights (including intellectual) a robust and independent legal system, sound structures that raise and allocate capital efficiently and distribute income equitably, and a political-economic framework that promotes creative enterprise and encourages debate.

The adviser for the Union Bank at Switzerland and SG Warburg argues that in the coming years, China needs also address many other issues that could test its real projection of power such as demographic composition. For example, he affirms that China by 2050, 31% of the population will be over 60 years old. So while today nine people of working age support each retired person, by 2050 there will only be 2.5 workers doing so. In this frame, China's young people up to 24 years old, will decline in absolute terms over the next 20 years, and by 2050 China will be very old. It will have more people aged over 65 than the entire US population predicted at that time, and more people aged over 80 than any other country.

Another big issued that could put in risk the consolidation of the emerging markets and the preservation of West's leadership, according to Magnus, is the control of CO₂ emissions. For example, in 2005 the emissions of the US and Chine represented roughly 6 billion tonnes of CO₂ per year, each amounting to about 20% of the global total, which is highly dangerous for the whole planet.

The water and food shortage, and lack of natural resources are also key issues that can determine the fade of emerging countries. Conforming to Magnus, China has become

increasingly aware of its vulnerability to climate change, becoming in a champion among the emerging countries in this matter.

For Magnus, the future for emerging markets is about structural change and reform, and the political aptitude and willingness to embrace both. Ultimately, this will determine whether China and emerging economies are more likely to shape the world, or just shake it.

This text is without any doubt an excellent reference for the new global order and for the contemporary geopolitics. It offers an innovative outlook about the factors that can influence the development of the international hegemony in terms of demographic composition, climate change, and political participation both for emerging markets and for the West. The book also presents important data that provide a picture of what the future might look-like for the rest of the world. Magnus, shows a compelling analysis about the risks and challenges for the West and for the BRIC, particularly China, highlighting the importance of building strong institutions based in the rule of law.

¹ Independent Scholar, London.