

May 14, 2011  
BRICS in 2020 Conference  
University of Chicago

## BRICS and the World Order

After World War II, the victorious west led creation of a liberal world order which included the UN and its constituent agencies, the GATT which became the WTO, the World Bank and international monetary fund. It was founded on a universal declaration of human rights, commitments to the rule of international law, the peaceful resolution of disputes, assistance for the lesser developed, free trade and a stable global monetary system.

The Soviet Union was a party to this order. But much of the world was still colonized or vanquished. The Indian subcontinent was ruled by a British viceroy and awaited its bloody partition. China and Brazil were not represented at the founding - some of which I observed in the war torn London of 1945 where great men gathered to right the failures which followed world war I, but little of the world was represented at the birth of this new world order.

The U.S. was the world's hegemon. It commanded about half the world's out put of goods and services. The U.S. dollar was the world's reserve currency - convertible to gold at \$35 to the ounce. Other currencies were pegged to the dollar.

Since then the world has changed but not the governance of this world order. The dollar, unlinked from gold in 1971, trades in the market at about \$1,400 to the ounce. The dollar has fallen by many measures like a barometer of confidence in U.S. fiscal, monetary and political governance and the viability of the U.S. economy in a newly competitive world.

Europe's union evolved from the early years after World War II. Today it is threatened with dissolution by the fiscal profligacy of certain members and differences over foreign policy.

China's opening up and reforms began little more than 30 years ago. In 1975, I was a running dog of capitalism. Now I am an honorary professor of Renmin University - and the University of Chicago has a platform in China located at my university. What would Mao think? The great creditor and producer to the world,

the U.S., became debtor and consumer to the world. China's foreign exchange reserves amount to some \$3 trillion, a large part invested in U.S. treasury obligations. China finances U.S. debt and keeps the dollar afloat.

The fault lines of cold war came down - and trade barriers (though Russia and China remain outside the WTO). Technology extended the reach of traders and producers in all parts of the world to all others. Money in the trillions shoots about this world with the speed of electricity, destabilizing currencies and markets. Communications ignore boundaries and energize the streets.

Globalization is a reality. Within this global economy the tides shifted from west to east and north to south. But these tectonic shifts in economic resources and activity and political authority have not been reflected in the governance of this world order. The WTO and IMF are still largely controlled by the U.S. and Europe. China with the world's largest foreign exchange reserves does not have a seat on the IMF board - or a stake in the SDR. India does not have a permanent seat on the UN Security Council - nor Brazil and so it goes.

With the U.S. perceived as propagating financial crises and wars of uncertain purpose and high cost, practicing the approximate reverse of the neo liberal economic policies it joined with the IMF to impose on others, the world begins to distance itself from the U.S. government. But not from the American people or that liberal world order the old U.S. helped establish. The BRICS mean to salvage it.

The five BRICS, Union of South Africa included, with 45% of the world's population recognized the failings of this governance at their recent meeting in Hainan. Discretely, they took note of the west's precipitation of financial crises and wars and expressed support for the UN and the peaceful resolution of disputes, commended the African union for its efforts to resolve the conflict in Libya peacefully. The BRICS called for an inclusive, accountable world order - not a new world order - the old world order reformed and managed in accordance with its founding principles.

They support the Westphalian doctrine of non-interference. They increasingly invest in one another and trade with one another in their own currencies. China's trade with BRICS increased 40% in 2010. They accelerate trade and investment with other nations outside the shrinking west. According to the Asia society, China's foreign direct investment over the next decade may be between \$1 and \$2

billion- with the U.S. government forfeiting much of it to countries with prudent governments.

The five BRICS account for about 20% of the world's output - and 45% of the world's growth in output. China alone commands over 25% of world growth. It won't be long before the BRICS have a larger share of global output than the G7. The IMF predicts China's economy will be larger than the U.S. by 2016. Meanwhile Standard and Poors puts U.S. debt on its warning list.

With U.S. debt and unfunded long term obligations at unsustainable levels, the U.S. depends on China for finance, but China is concerned about the safety of its dollar holdings - the more so as the federal reserve prints more dollars, many of which flee the U.S. for refuge in emerging markets which defend their currencies with capital controls, taxes and higher bank reserve requirements. As the Fed pushes on the string, China diversifies its investments. It denominates international transactions, including share offerings, in renminbi and other non-dollar currencies.

The world is left without a reserve currency - a reliable store of value. Europe is struggling to contain fallout from the fiscal profligacy of some members. The resources of its Financial Stability Facility may soon be exhausted. The euro is not a reserve currency candidate. Japan's debt exceeds its GDP by more than 200%. The yen is not a candidate. The renminbi is not ready. The SDR is not a reserve currency.

The world's monetary system still reflects arrangements at Bretton Woods in 1944, including U.S. rejection of Maynard Keynes' proposal for a global currency. Today, the money is in the east, increasingly in the south - and control remains in the west. The IMF's resources and powers are unequal to the requirements of a monetary system for this world - a world it does not represent though its staff is becoming realistic.

Combined with political instabilities and costly wars (Afghanistan has already cost the U.S. \$1 trillion), these conditions could exacerbate imbalances in the global economy, even lead to financial meltdown. To say the least, they undermine potentials for economic growth and political stability. But where is the leadership of a post America world?

At the recent meeting of the BRICS, the presence of the President of the Union of

South Africa signified the inclusivity of the BRICS. They deem themselves a platform for dialogue and cooperation, reflecting principles of openness, cooperation and mutual assistance. Meanwhile, China internationalizes the renminbi and appreciates it against the dollar. It will contain inflation and asset bubbles, foster domestic consumption and reduce the costs of its exports, many of which are imports re exported after value is added in China. A stronger renminbi reduces the costs of its foreign investments in sources of supply - and sources of demand for its products. A stronger renminbi will enhance China's competitiveness as it climbs the ladders of technology and capital intensity while shedding dollars. The U.S. ran a trade surplus with a strong dollar.

China buys time, but no successor to the dollar as reserve currency for this world is in sight. Work has been going on for many years to develop an East Asian regional monetary regime, currency unit and fund which might be incorporated in a global monetary fund and currency. Progress has been slow. But now the BRICS are discussing a new international currency regime. They imply national currencies pegged to a basket which might include gold as well as the renminbi and other currencies. A global currency is a possibility.

The fundamental issue is one of leadership for a new world. The BRICS recognize this issue and begin to discuss governance in the post America world across a broad front. The WTO is in peril. The UN Security Council is unrepresentative. And the west is seemingly powerless. But the BRICS may be ready to exercise responsibility commensurate with their control of some 70% of the world's foreign exchange reserves and organize a process which includes all nations. All would benefit from stabilization of exchange rates, transactional efficiencies, rules for capital adequacy and transparency - resources for lender of last resort financing - perhaps a single currency. All countries would benefit from a sound and stable monetary system. Judging from the scene in Washington, the U.S. might have need for a global monetary fund's resources - and disciplines. The BRICS could help usher in generations of unprecedented prosperity - and peace - for this new world.

This remarkable conference, organized in large measure by students from BRICS, portends change in the making. A new generation is coming of age. These young are reason for hope. The University of Chicago is to be commended for hosting this extraordinary conference.

I have recorded my family's experience in politics and the world over five generations in *The Black Book*. It starts with Lincoln and ends in China with an

epilogue on the life cycle of nations and empires. It aims to recall the values which created America and contrast them with the values which undermine it. Its lessons from the past are for the future and BRICS, as well as Americans.