

6 From a unipolar to a multipolar world

Global power is shifting. One superpower no longer holds sway and regional power blocs are increasingly important, economically and diplomatically. As global interdependence and trade expands, Europe may benefit from improving its resource efficiency and knowledge-based economy.

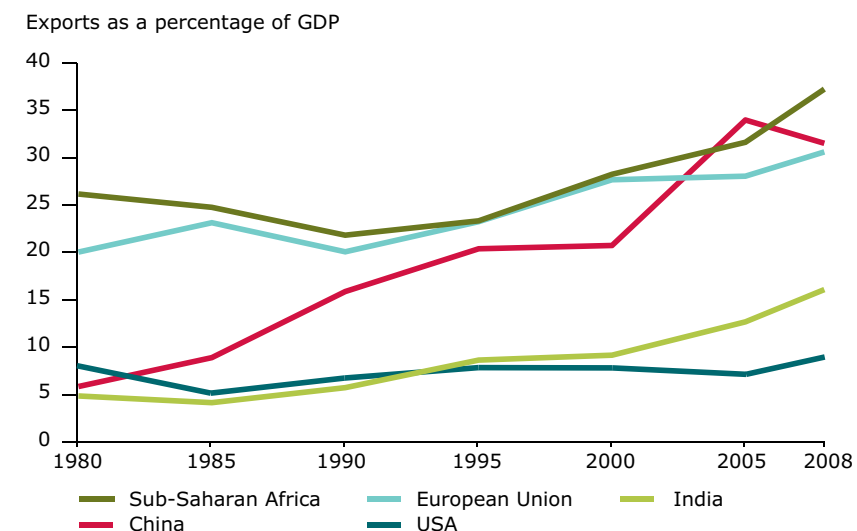
The data and projections on global and regional economic growth show that an increasing share of the world's GDP will be created in emerging and developing regions. The USA's share of global GDP is projected to decrease from 26 % in 2010 to 23 % by 2050. For the EU these figures are 22 % in 2010 and 17 % by 2050. China's share is expected to grow from 7 % to 18 % in the same period in this outlook. For India and the ASEAN-5 countries, projections are equally impressive, from 2.1 % to 5.1 % for India and from 1.7 % to 4.8 % for ASEAN-5 (IMF, 2010).

Another indication of continuing globalisation and the growing role of emerging countries in the world economy is the increase in their exports as a proportion of national GDP. For the world as a whole this figure grew from 20.5 % in 1980 to 27.1 % in 2009. A similar pattern is apparent in the EU: 20.1 % in 1980 and 26.3 % in 2009. In India it grew from 4.8 % to 13.0 %. The USA has had a fairly constant export to GDP ratio through time, at about 7–9 % (Figures 6.1 and 6.2).

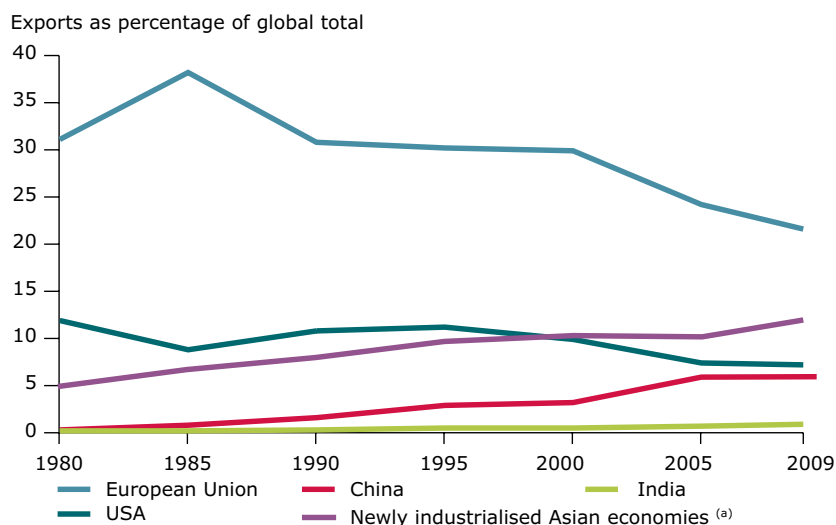
Fast-growing countries may even gain more in economic influence than their growth rates suggest when their middle class consumers grow in numbers and start to spend discretionary income on modern, short-cycle consumer goods, becoming attractive export markets for advanced economies (Accenture, 2008). Foreign firms locate in these countries to profit from growing demand, and to use cheap and skilled labour when available. The Fortune Global 500 list included 46 companies located in China in 2010, against just 16 in 2005.

The ratio of foreign direct investment (FDI) to GDP grew for the world as a whole from 0.43 % in 1980 to 5.4 % in 2007 (although 2008 and 2009 show drastic reductions due to the economic crisis: 63 % lower in 2009 compared with 2007 at world level). FDI into China rose from 0.5 % of national GDP in 1985 to 5.8 % in 2007. In India it grew from zero to 3.3 % in the same period. The figure for central and eastern Europe clearly shows the impact of economic integration resulting from EU accession in 2004 and 2007, rising from 3.0 % of aggregate GDP in 2000 to 19.0 % in 2007. The increased ratio of FDI to GDP indicates increasing global interdependency, which is driving increased efforts to bring down trade barriers through international agreements.

Figure 6.1 The weight of trade



Source: IMF, 2010.

Figure 6.2 Share of global exports

Note: (a) Hong Kong, Korea, Singapore and Taiwan.

Source: IMF, 2010.

Economic power concentration will tend to diversify — from a unipolar (USA) to a multipolar global economic map — when BRIC countries and subsequent emerging economies (Indonesia, South Africa, Vietnam and others) grow in economic significance (NIC, 2008; Poncet, 2006). For example, by 2050 the Asia-Pacific block is expected to be China's second biggest trade partner, whereas it ranked fifth in 2006. Latin America is expected to be the USA's biggest trade partner, moving from third in 2006 (Figure 6.3).

This power shift may be reinforced when countries form blocs and act in concert, as the EU has pioneered. The euro is now a leading currency, alongside the yen, the renminbi and, most importantly, the US dollar. Several forms of cooperation exist, including free trade agreements such as NAFTA in North America and SAFTA in south Asia, which can provide a step towards closer economic and political integration.

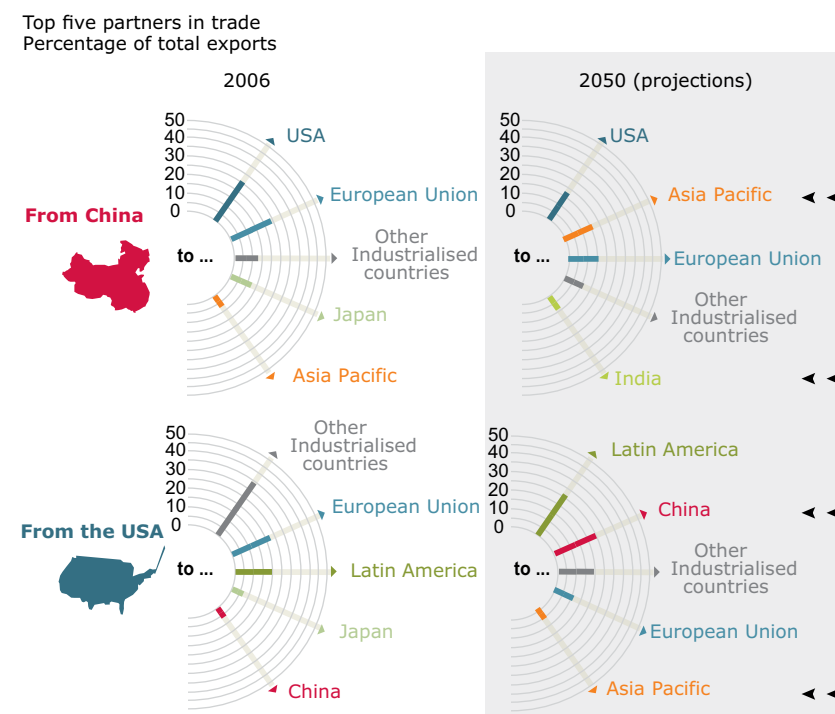
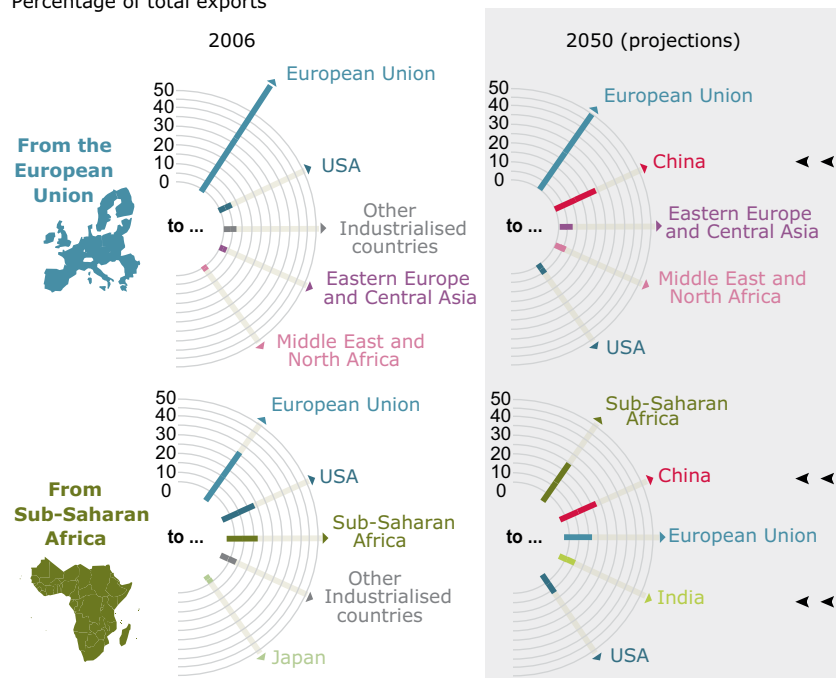
Figure 6.3 Shifting trade flows

Figure 6.3 Shifting trade flows (cont.)

Top five partners in trade
Percentage of total exports



Source: Dadush and Shimelse, 2010.

ASEAN is a geopolitical and economic organisation in South East Asia comprising 10 countries, economically dominated by Indonesia, which accounts for about a third of its combined GDP. ASEAN has established free trade agreements with China, South Korea, and Japan (ASEAN plus three) and in 2003 the goal was set to create an ASEAN Economic Community by 2020. Parallel to this, regional cooperation has progressed in south Asia and the Gulf region and in 2002 the Asia Cooperation Dialogue (ACD) was created to promote Asian cooperation at a continental level with the ultimate goal of transforming the continent into an Asian economic community (ADB, 2007).

Box 6.1 Why is this global power shift important for Europe?

When countries grow relatively fast they gain in economic power through their enlarging production and consumption markets. They are able to exercise that power at international negotiations on economic matters (such as trade barriers and product standards) but also in a wider sense, including participation in climate change and other environmental negotiations.

Countries not only gain power through sheer size and prosperity but also through their level of technological development and ownership of important resources. In the early stages of development economic growth may be driven by increased labour productivity supported by capital accumulation. When developed countries gain access to local markets in developing countries, for example for outsourcing certain economic activities, technological diffusion is likely to speed up and fertilise innovation in the host countries. That gives a boost for further productivity growth and increased prosperity and economic power.

Owning essential natural resources may further improve emerging economies' competitiveness. Their growing demand for resources stimulates domestic exploration and exploitation, possibly increasing the countries' share in the total global stock. Resolution of open ownership claims with regards to continental shelf rights, such as in the Arctic Ocean, also stands to shift the relative distribution of natural resources. Perhaps more important, crucial mineral sources for new technologies tend to be very unevenly distributed over the globe. For example, more than half of the world's stock of lithium, a metal at present essential for hybrid and full-electrical cars, is believed to be located in Bolivia, with huge economic potential.

Economic growth rates vary globally as countries and blocs gain and lose competitiveness, with trade flows shifting accordingly. These changes can fundamental influence the Europe's economic activities, including where and how it earns income. Emerging economies traditionally earn the largest part of their income from agriculture and industry. In China, for example, these two sectors accounted for 60 % of GDP in 2008. In advanced economies these sectors tend to diminish as a proportion of the economy overtime, with the services sector becoming dominant. The share of the services sector in China is 40 % against 77 % in the USA and 74 % in the EU.

Europe currently faces competition from emerging economies primarily in industrial and agricultural markets. In the future, however, it will increasingly be felt in the services sector as well. Europe will need to find its own niche to maintain its income levels. Its relative resource poverty may lead to a more resource-efficient economic structure, leaning further towards being a service economy. For example, with increasing purchasing power in emerging economies, Europe may become more and more attractive as a tourist destination.

Its economic profile will determine where and how Europe will use natural resources and affect the environment, both domestically and abroad. This megatrend will therefore have a direct and indirect effect on Europe's environment.

Key drivers and uncertainties

Key factors influencing a global shift of economic power from the advanced economies to the emerging economies are, first of all, the rates of productivity and income growth in emerging economies, which are outpacing those in advanced economies. Other important drivers are similar to those underlying continued economic growth: population growth, continuing technological innovation and diffusion of technologies, favourable economic policies and integration at regional and global level (Maddison, 2001).

Major uncertainties include the ability of emerging economies to secure access to key resources under changing scarcity patterns and to maintain or gain an additional competitive edge vis-à-vis the advanced economies. As with the issue of economic growth more broadly, there are also uncertainties over whether technological innovation will proceed fast enough to sustain economic growth despite increasing resource prices.

Socio-political developments (for example democratic processes, growing income disparities, and potential ethnic conflicts) are a particular uncertainty, as is the effect of adapting to reduced availability of skilled labour due to possible mass migration in the short term and ageing in the longer-term future. A specific uncertainty is the ability of emerging countries to develop economic cooperation mechanisms and further economic integration, which will reinforce their position on the global stage. The last and perhaps most important uncertainty concerns geopolitical stability and the absence of military conflicts.

7 Intensified global competition for resources

How will Europe survive in the intensifying scramble for scarce resources? The answer may lie in more efficient production and resource use, new technologies, innovation and increasing cooperation with foreign partners.

Economic growth is continuing globally and is accelerating in BRIC countries and other newly emerging economies. Demand for fossil fuels and other subsoil and natural resources is likely to grow in absolute terms despite continuing and partly successful efforts to increase the resource- and energy-efficiency of economic activities.

Fossil fuels will remain the most important energy source, at least until 2030, and the use of oil, gas and coal is expected to grow in volume (IEA, 2009) over this period. Coal is not scarce but is problematic for pollution and climate change reasons. The production costs of oil continue to rise with the expanding share of deepwater exploitation in total supply (IEA, 2008) (see Figure 7.2). Although coal and gas are abundantly available, environmental and logistical reasons prevent a substantial shift away from oil to these energy sources.

Fossil fuel reserves are concentrated in a small number of countries. Some 80 % of the coal reserves are located in just six countries and the EU has just 4 % of the global total. The EU share of the world's gas reserves decreased from 4.6 % in 1980 to 1.3 % in 2009 and these reserves are expected to be exhausted before 2030. More than half of the global stock is found in only three countries: Iran, Qatar and Russia, which accounted for (24 % of the total in 2009 and is a major gas supplier for the EU.

Ten countries (of which eight are OPEC members) have 80 % of the world's oil reserves. Some of these countries may exercise their power to restrict supply or influence the price (NIC, 2008). EU dependence on imported fossil fuels — currently accounting for over 50 % of fuels consumed — is slowly rising. Some EU Member States (for instance