BRICS and a Change of the World Economic Hegemon

Opening Remarks of the Editor-in-Chief

The grouping of the BRICS countries, at first seemed to many a convenient speculative statistical finding, has a much deeper meaning. It is defined by a fundamental shift taking place in the world economy for the benefit of developing countries where the BRICS and other countries are in the vanguard (Mexico, Indonesia, Nigeria, Turkey — MINT group, as well as some others). During the 1950–2010s China increased 4.5 times its share in the world GDP, India doubled its share, a share of Russia fell four times. But the developing world today has reached half of the world GDP and continues growing. It is projected that by 2030 the share of the BRICS and related economies will be 70% of the world GDP, as at the beginning of the 19th century. The share of western countries will reduce accordingly to 30%. In 1950, the ratio was inverse — 70% in favor of the West, led by the United States. In 1950, China and India accounted for less than 10% of world GDP.

The historic pendulum swings slowly. For 220 years, we have only the third time faced with a situation of a change of the world technological and economic hegemon.

In the 19th century it was established in the world a system based on the British technological and economic superiority and

on the pound sterling as the world currency. The GDP per capita in Britain in 1820 was 2.1 thousand dollars (in terms of 1990), also significantly outperforming the former world leader — the Netherlands (1.8 thousand) and the future — USA (1.3 thousand), there was no Germany as a single state at that time on the map of the world at all. China, India, Brazil had approximately $ 600 per capita, still with Russia accounting for two thirds of the world economy[1].

Already in 1913, Britain was behind the United States in per capita GDP (5,150 to 5,301), but the process of changing the world technological and economic hegemon took another 40 years. The falling of the world of the BRICS continued; it was the scene of cruel exploitation with its nuances in every country, even in formally independent Russia and Brazil. In 1913, China's per capita GDP was less than 552 dollars, in India — 673 dollars, and in Brazil — 811 dollars.

On the eve of the First World War the United States was potentially ready to take on the role of the world hegemon. But there were not ready either former dominants, or other European great powers, especially Germany, rushing to win its "place in the sun" and became, along with the US the leader in a technological breakthrough of the first half of the twentieth century.

In 1913, Britain's foreign assets were equivalent to one and a half of its GDP and brought more income than the domestic economy. In 1913, Britain still remained in all the splendor of its imperial majesty as the leader of the world liberal economic system based on the dominance of the pound sterling as the world currency; it still maintained its position as a technological leader in many fields.

By 1950, the US per capita GDP exceeded by one-third of Britain (9.6 thousand to 6.9 thousand), and the dollar became the world currency, replacing the pound sterling, which since the late 1920s lost its former influence and stopped bringing unique benefits to the empire. At that time, per capita GDP in China and India became even lower (439 and 619) compared with 1913. Their share in world GDP fell below 10%.

In the First World War, Britain suffered significant human and material losses, although proportionally less than France, Germany and Russia. Up to Bretton Woods, Yalta and Potsdam London still hoped to maintain its status as the leading empire and currency of the world.

The final verdict to the Empire sounded in 1945 at the international conference in San Francisco in the speech of the representative of India: "We are talking about the great powers and small powers; we are talking about the special responsibility of the great powers, as well as the special privileges of the great powers. I would like to represent in the proper form what India has made in this war. Two and a half million sons of India, soldiers from all over the country that joint the army voluntarily, are fighting now in different parts of the world against the common aggressor ... Immediately after the great countries — four powers ... the closest by the power of the armed forces to the four powers is India."[2] In fact, by these words, indicating a strong real contribution to the victory over the aggressor, and also little-known today, it was completed monetary and financial hegemony of Britain, which lasted for more than a century. But the matter was not just in words.

The Second World War further undermined the economy of the empire: the war with Germany; the seizure by the Japanese of the poorly protected fragments of the empire in Asia; the inevitability of war, food and other aid from the United States, as well as the transfer, to the Americans, of its experience of managing a large world empire and big finance, the implementation of advanced technology programs, conducting global intelligence, etc ... Then London had to finance Indian participation in the war not for account of domestic Indian taxes as before but raising loans. As a result, India by the end of the war repaid the pre-war debt to the metropole of 1.2 billion pounds and amassed an even greater reserve. Soon after India gained its independence; Britain withdrew from Burma and Sri Lanka, and then from the African colonies, finally, in 1956, the United States demanded the withdrawal of British troops from the Suez Canal zone.

Thus, the process of changing the world economic hegemon completed.

Between technological innovations, investment and finances there exist its own complex relationship due to different mechanisms for generating real and fictitious capital: financial fever, partly by investing in new production, creates the rush and atmosphere of excitement, and most importantly — the ever-growing "financial bubble", breaking away farther and farther from real security. Next — the collapse of the bubble, the crisis and social upheavals, if regulatory institutions at the national and international levels are wanting to the occasion. The Second World War was preceded by the "Great Depression" that gripped the US and Britain, and most importantly — a complete breakdown of world trade and payments system.

Until the early twentieth century, the pound sterling backed by gold reserves of Britain coped with the challenges of servicing the world flows of commodities and capital flows. Although the United States became the world's major net exporter already before the the First World War, in 1913 the share of the pound in international payments still reached 80%. An attempt in 1922 in Genoa, to establish a system of international payments failed. A lack of coordination and interests led to the deterioration of the situation. A shortage of means of payment was big and stifling, there was no full-fledged system of exchange rates, barter spread; the beginning of the economic crisis in 1929 gave impetus to a many-year cascade of currency depreciation. All this was accompanied by endless currency and trade wars, splitting the world monetary system into blocks.

According to Van der Vee, a sharp rise in the economic power of the United States in the early twentieth century allowed it to gain control over Western Europe as early as in 1919: the United States "were to take place of Britain" as "the head of the World", matching world trade, investments and settlements. In fact, the United States was required to implement the "stabilizing leadership."

However, this did not happen. First of all, because in the 1920s in the structure of the world's foreign exchange reserves the pound sterling still accounted for 77%, the dollar held the second place — 21%, but its share increased tenfold since 1913[3].

More importantly, it was a milestone challenge for the US — the first invasion of the United States in world politics. But the realization of this maturing mission of the US was prevented not only by the set of

influential circles of this country on isolationism, but also the resistance and mutual confrontation still powerful other great powers, especially Britain and France, the principle of "self-determination" of small nations, gave rise to many consequences, as well as "Russia's problem."

But the main knot of contradictions in the decisive moment, which could have provided a moving away from the perspective of a new war, was delayed by two very specific issues: the preservation of the colonial system and reparations from Germany, including the redistribution of its colonies. The essence of the conflict was simple: "In fact, the embittered winners simply craved after the moneyed assistance from the United States, but even more – moneyed compensation for the expense of Germany. The allies resented that the power, entered the war last and suffered least losses relative to other, seeks to dictate its terms."[4]

Such strong factors as a coming out of Germany and Russia from the normal trade turnover, unresolved debt problems, internal social tensions led to increased disorganization of international capital flows, disorganization of exchange rates, growing protectionism, together increased the propensity of the then actors to solution by force of contradictions and restriction of sovereignty.

As demonstrated by numerous interwar international conferences and negotiations, including the experience of the League of Nations, the ability of the leading powers to find mutually beneficial solutions apparently left much to be desired. The Second World War eventually became a way of dismantling the obsolete world system, paralyzing trade and cooperation.

The most important economic result of the Second World War is the formation by coalition of victors of the system of supranational institutions of the new generation. By 1945, the US had accumulated, according to various estimates, from 70 to 85% of the world's gold reserves.

A thousandth part of the Soviet Union in the world trade and settlements excluded any significant influence on the new world financial architecture. The main economic benefit of the war, so went to the United States.

If the key resources of the world economy (energy and raw materials, manpower, transit) are in the countries of the South, then technological, military and institutional resources in the course of the global development concentrated primarily in the countries of the North. And the most important element of this dominance is who owns the right to issue the payment instruments and the world's reserve currency.

Thus, since the First World War a hundred years falls to rise and triumph of credit-debt model of economic and technological development, which has allowed the United States to make a breakthrough to the current status of the world hegemon, the only superpower.

But the establishment of both British, and American hegemony was based on the leadership in the world technological development and the growing weight of their economies in the world economy. The ability to create the world monetary and financial system received by the rest of the world — is a key factor in the success of such hegemony. Methods of its creation were not the most elegant, they were reduced to the colonial conquest of the world, and then to its redistribu-

tion. Their aim was to provide financial advantage that is directly dependent on the technological advantage, not only in industry but also in the service sector, primarily — financial.

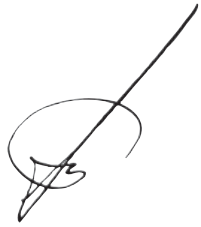
A stage in human history going through resembles the period between 1913 and 1945: one hegemon began to give up its positions, and the other was not yet ready to take them.

The growing importance of the BRICS countries is a long-term process. The very claim of the BRICS countries for seeking to take an active part in the formation of new institutions of world trade and monetary-financial system is a key step in the formation of a fair world order in the struggle that all these countries carry on for their independence and prosperity in the recent two centuries.

In this case, erosion of the hegemonic position in the real world production, as history shows, can be long enough compensated by excellence earlier achieved in the field of strategic industries, military power, technological advancements, communication platforms, informational influence, the whole complex of factors of "hard" and "soft" power , organizational and intellectual advantage. Due to these factors a fall in the share of the West in world consumption and world finance takes place with a slowdown compared with the fall in the share of world production.

Furthermore, in a crisis situation, with some actors with global interests and potential of global influence it will inevitably exacerbate the tendency to resolve the accumulated contradictions at the expense of other actors through military conflict.

Fortunately, the tragic experience of the twentieth century quite allows counting on a peaceful settlement of the accumulated contradictions. And if in the second half of the twentieth century, the world economic development was mainly dependent on the United States, then in the 21st century it will mainly depend on the three contemporary and long-range leaders: the United States, the BRICS group and the European Union. In the evolving conditions of today the development of multilateral cooperation within BRICS, and most importantly — increasing their contribution to the reform of the global monetary and financial system, as well as their ability to establish an independent contour of the international financial architecture, is an alternative to dragging them and the world into a a new Big War.



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Endnotes

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2. Conference of the United Nations in San Francisco (April 26 — June 26 1945: collection of documents. — M, Politizdat, 1984. — P. 143
3. *Katasonov V.Yu..* Bretton Woods: A Key Event in the Contemporary Finance History. — M, 2014. — P 50.
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