

Mario Baldassarri

Globalization without governance: The short-sighted visions of the old G7, the attempts of the BRICS for an “alternative governance” and the process of deepening and widening European Union

In these notes I summarize analysis and proposals written in several books and published by Palgrave-MacMillan between 2003 and 2009¹.

Indeed, I am summarizing here what could be seen by any economist, or a simple foresighted observer, at the beginning of the new millennium, i.e. at the beginning of the process of world globalization.

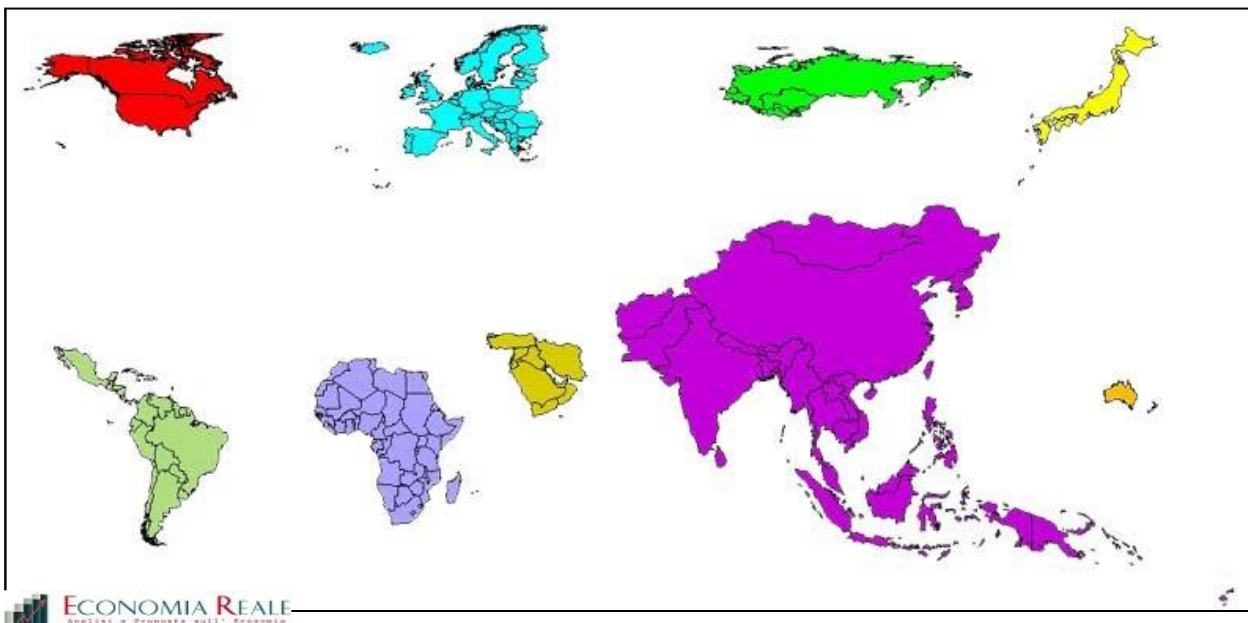
The aim here is to evaluate whether what was foreseen twenty years ago has had consequences in terms of institutional and strategic arrangements.

Clearly, the answer is no.

Let's start with the little game I did over twenty years ago.

FIG. 1

Map 1: The world continents weighted by Population (2003)



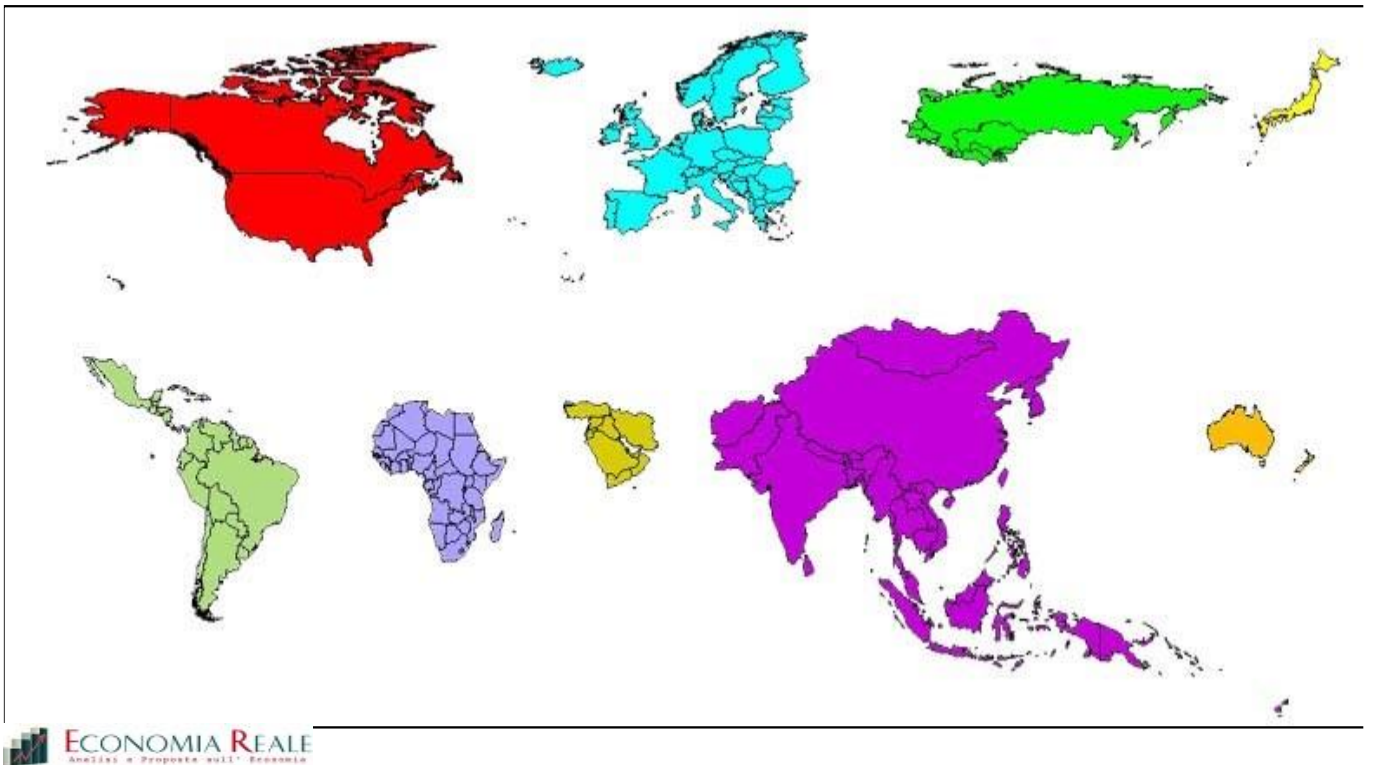
¹ The four books I am referring to are: 'The Global Economy towards Global Disequilibrium' 2003, 'Wake Up Europe ' 2005, 'The European Roots of the European Crisis' 2007, and 'Quo Vadis: World and Europe' 2009

In Fig. 1, the size of the various continents represents the weight each one of them had in the world on the basis of its population in 2003, that is, at the dawn of globalization when China entered the WTO.

In Fig. 2 the proportions refer to each continent's share of agricultural resources.

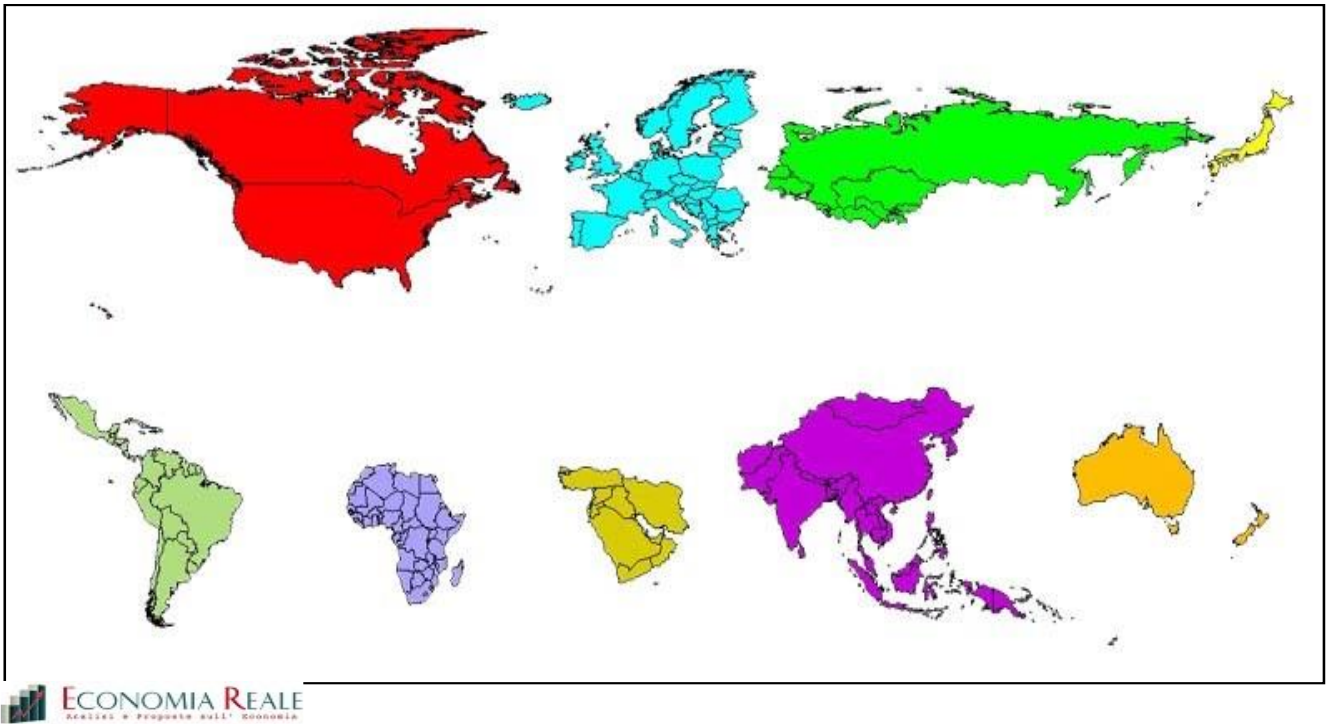
FIG. 2

Map 2: The world continents weighted by Agricultural Resources (2003)



In Fig. 3, the weights in terms of mineral resources are shown.

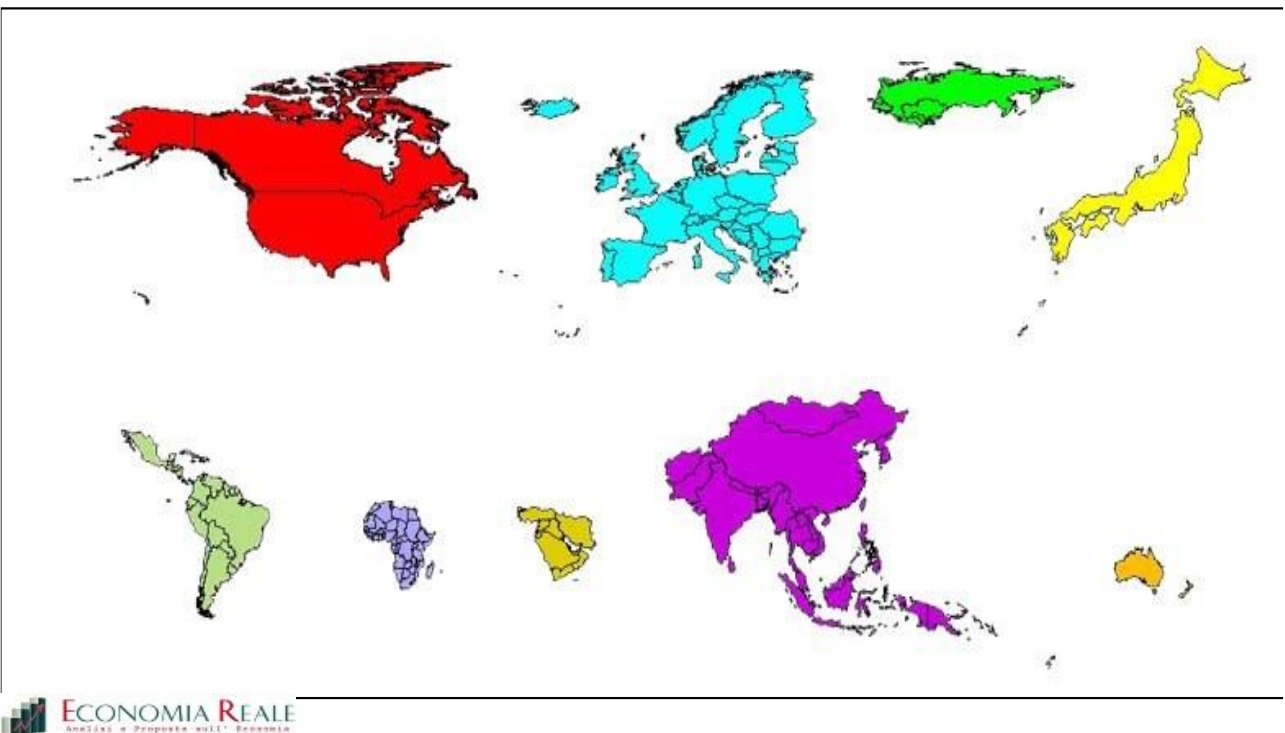
Map 3: The world continents weighted by Mineral Resources (2003)



In Fig. 4, the shares relative to GDP are represented, always referring to 2003.

FIG. 4

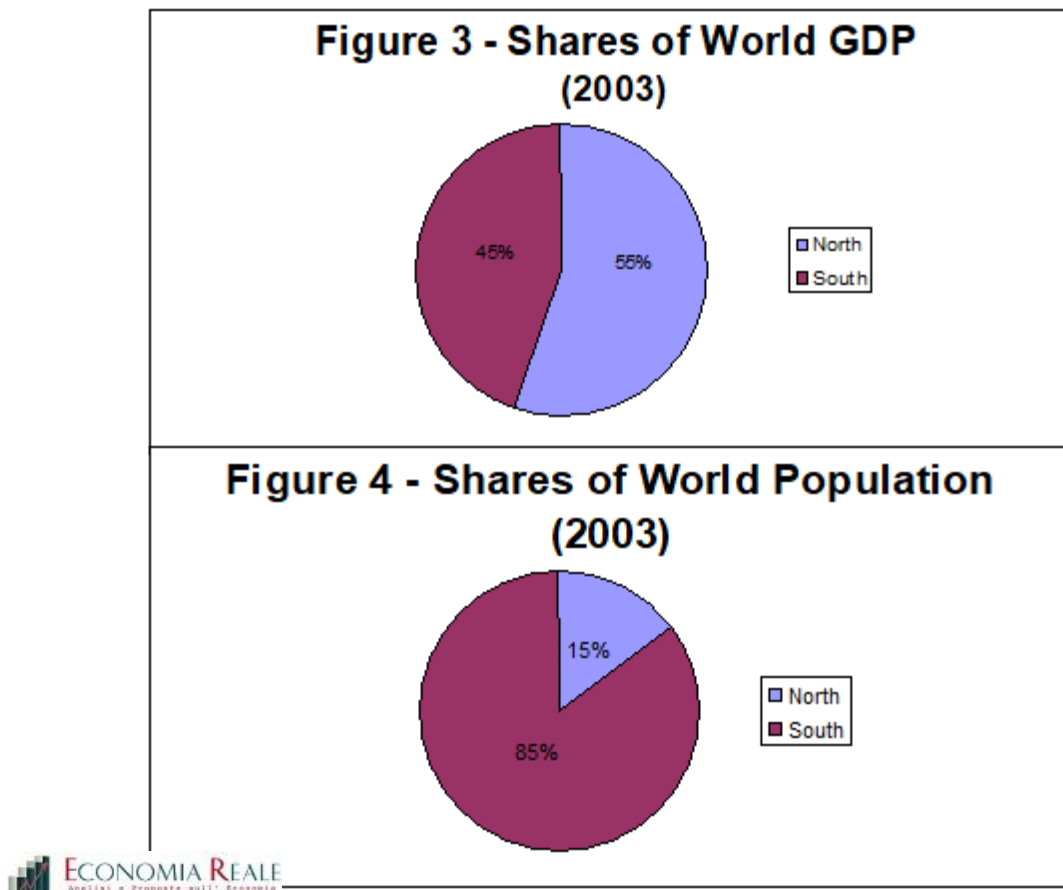
Map 4: The world continents weighted by Real GDP (2003)



This was the Gross Domestic Product (GDP) in various continents in 2003.

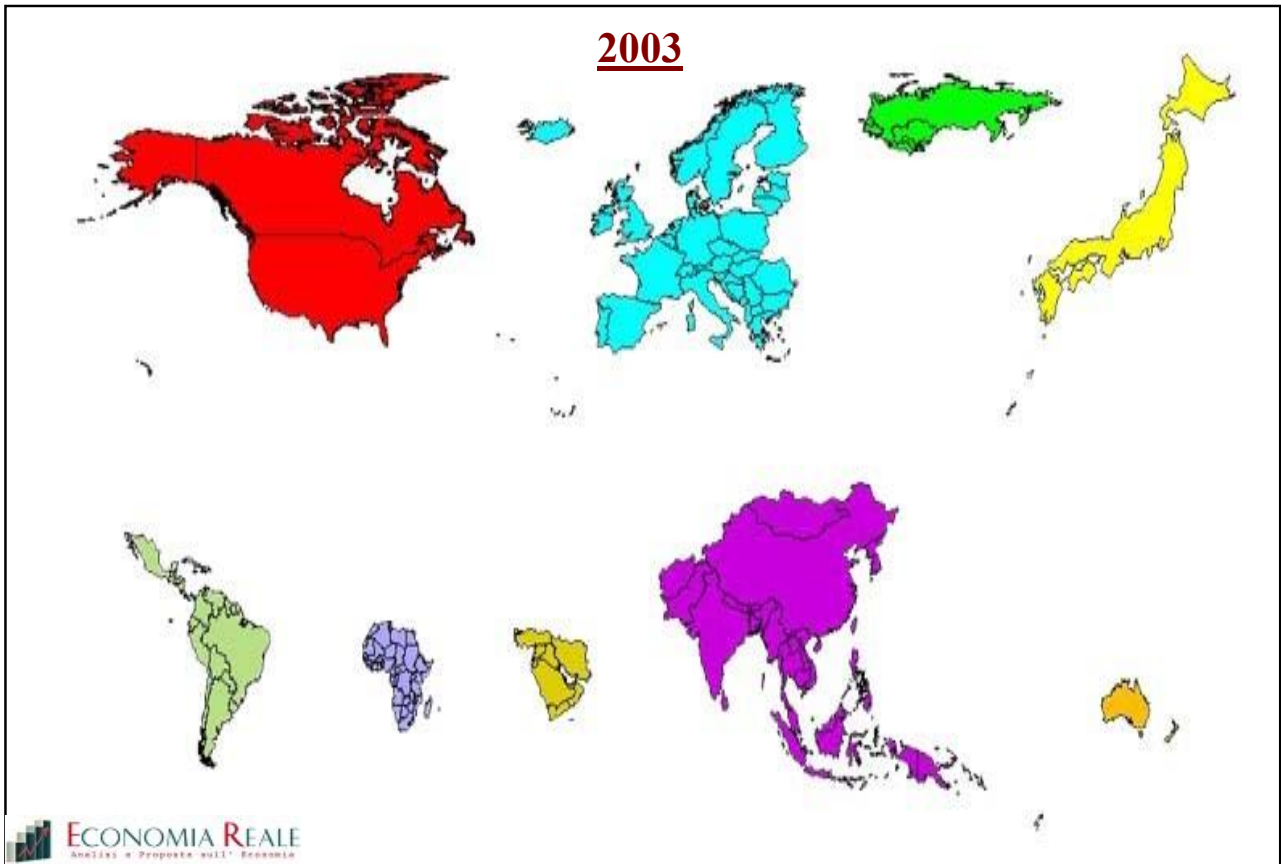
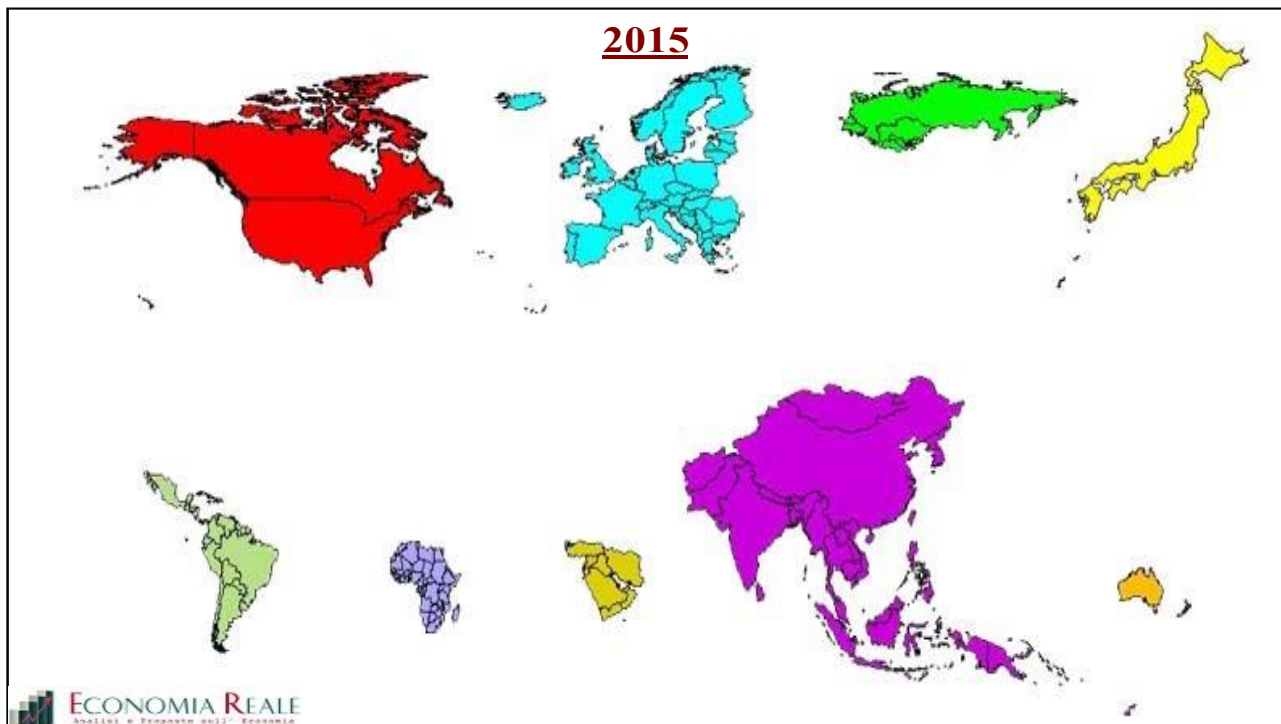
It was a snapshot but it was necessary to understand how things were moving. At that time, the share of world GDP was 55% in the Northern Hemisphere and 45% in the Southern Hemisphere, compared to a population that was 15% in the Northern Hemisphere and 85% in the Southern Hemisphere, see Fig.5.

FIG. 5

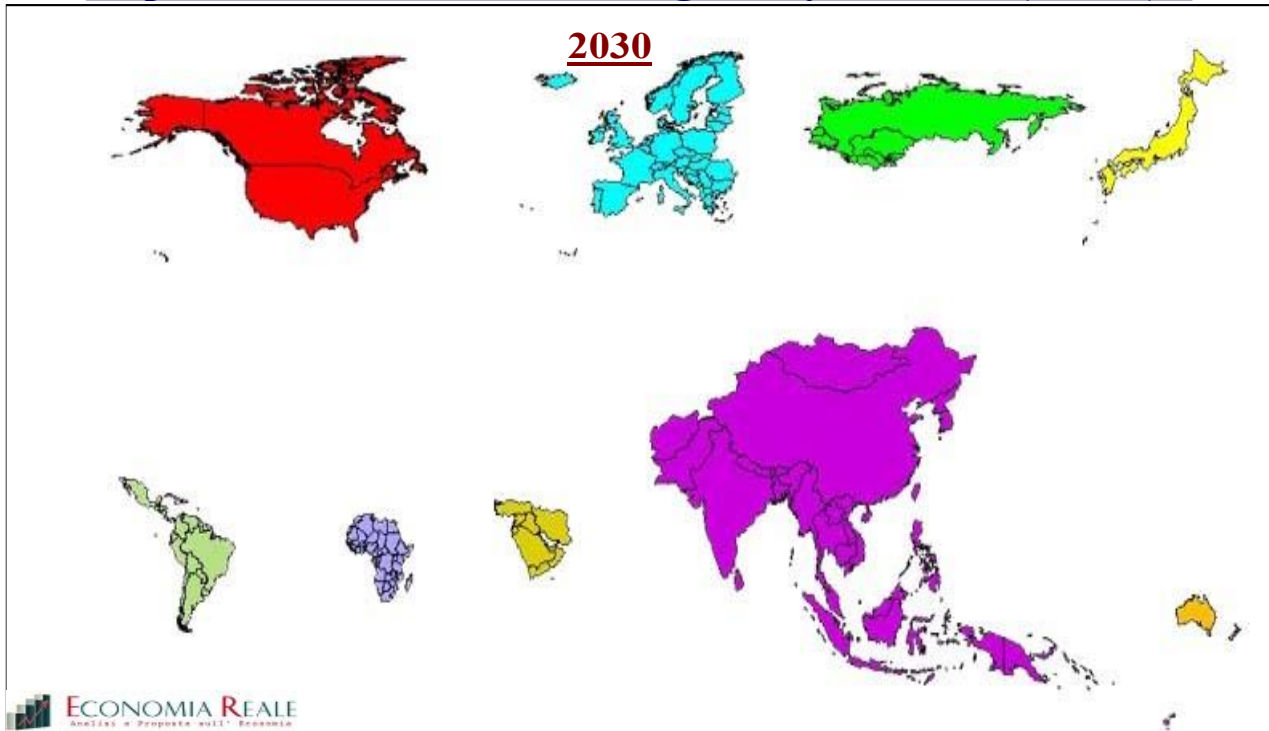


Here is, then, the little game, which consisted of projecting the current growth rates of the various world economies over the long-term to see how the situation would change by 2015 and 2030. Now, although this was only just a projection of numbers, it was already evident at the beginning of 2000 that, relatively speaking, we would see a downsizing of Europe and America, in terms of absolute values, certainly not in per capita terms.

I would like to draw again your attention to the GDP figures for 2003, 2015 and 2030, see Figs. 6, 7, 8.

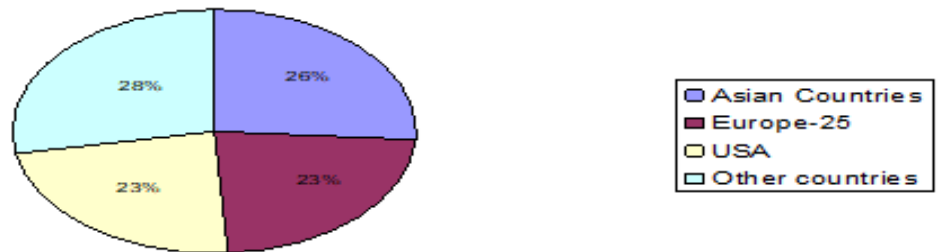
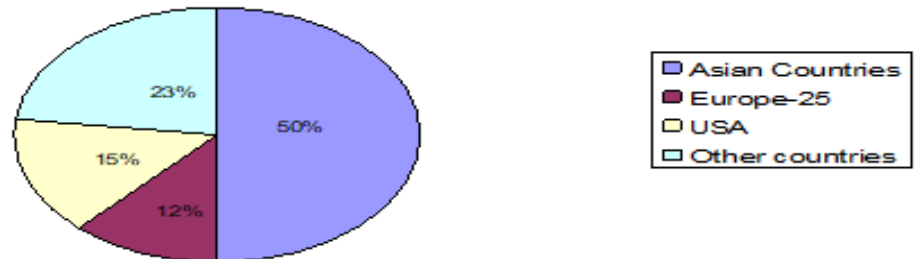
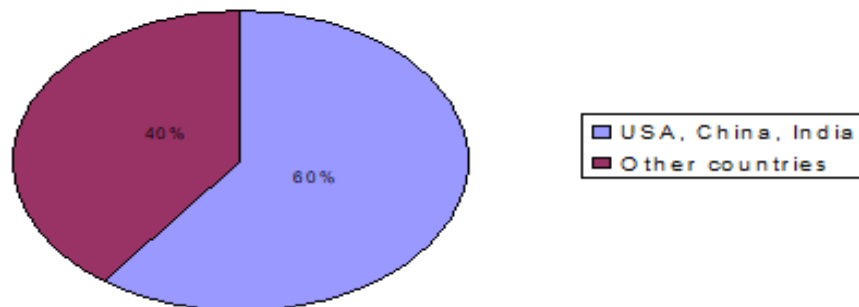
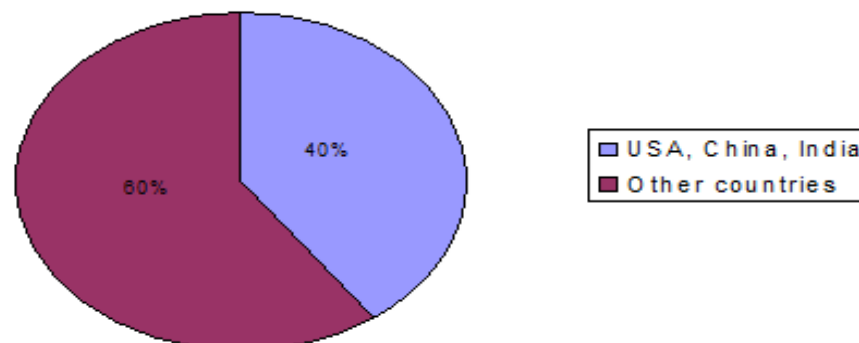
FIGG. 6-7-8**Map 4: The world continents weighted by Real GDP****Map 5: The World continents weighted by real GDP (in PPP)**

Map 6: The World continents weighted by real GDP (in PPP)



If you move these figures in sequence, you can see the weight changes over the long-term, an event that could have been predicted and seen as early as 2003, twenty years ago: the significant growth of Asia led by China and the impoverishment of Africa that becomes increasingly smaller in terms of GDP but will have a population of nearly two billion people by 2030.

I wondered, then, given those radical movements in GDP shares, if it would be necessary to adapt global governance to such changes. In 2003, we would have roughly allocated global GDP into quarters, one quarter for each of the continents, but even then it was possible to understand that by 2030, 50% of GDP would be in Asia. Europe would shrink to 12%, the United States to 15%, and other countries to 23%. Putting together the United States, China and India, one could see that three dominant poles would be formed. See Figs. 10 and 11.

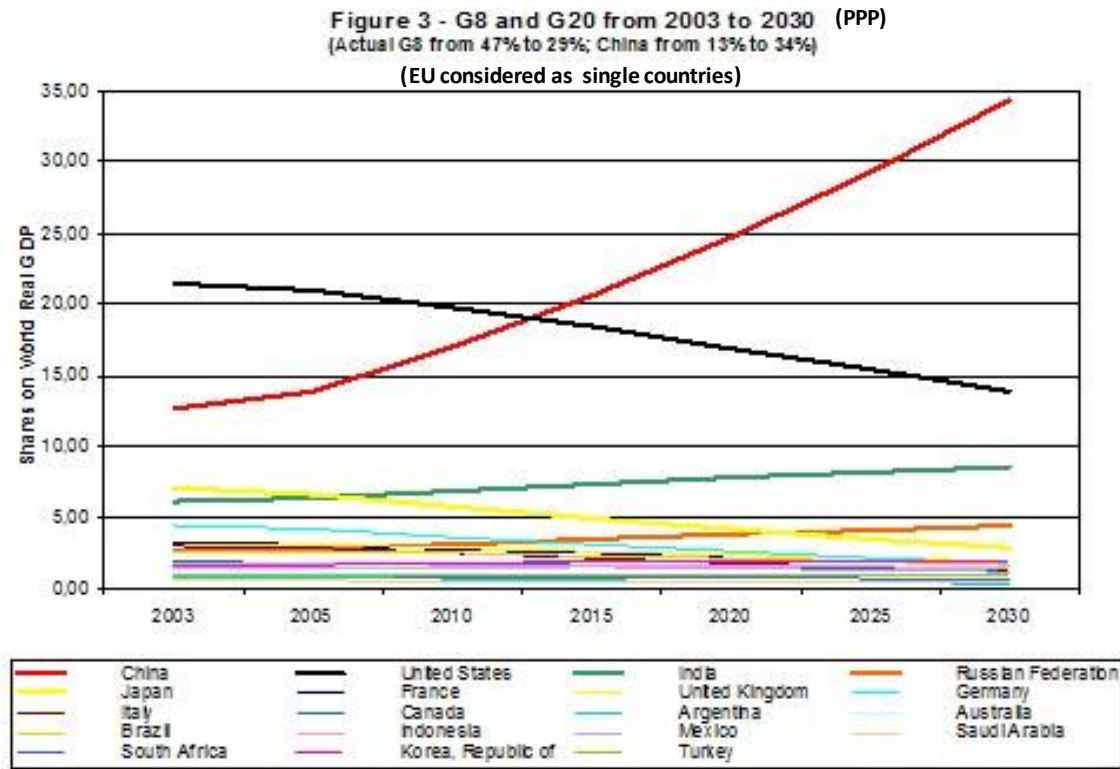
FIGG. 10, 11**THIRTY YEARS AHEAD FROM 2003...IF EVERYTHING CONTINUES AS IT HAS BEEN IN THE PREVIOUS FIVE YEARS****Figure 5 - Shares of World GDP - 2003****Figure 6 - Shares of World GDP - 2030****Figure 7 - Shares of World GDP - 2030****Figure 8 - Shares of World Population - 2030**

At that time, and today as well, the G7 included the United States, Canada, France, Germany, Italy, Great Britain, and Japan. It was evident even then that globalization could not be governed with a rearview vision, that is, with an old G7 that reproduced past economic weights. In the future, given the changes in economic weights, governance needed to be consequently adapted.

These are the twenty years without governance, with, on the one hand, a G7 pretending to continue governing the world while representing only a third of the world, and, on the other hand, the other countries attempting in recent years to create a G20. I have always referred to this as the "condominium meeting" where everyone talks and discusses but is incapable of making decisions. G20 cannot be a world government. Indeed, I pointed out the risk that we would move towards a world with two governance systems: one being our old Western one and the other emerging from the BRICS, which is expanding. Therefore, either we reform the International Monetary Fund, the World Bank, and the entire architecture of the post-Yalta and post-Bretton Woods international economic and financial institutions, or we risk finding ourselves with two opposing "governments": our World Bank and the Asian one led by China and our International Monetary Fund and the Asian one. That is what is happening. For now, the only advantage is paradoxically that, on the Asian side, there is not yet the anchor, that is, the reference currency, because, as we can well understand, the Chinese renminbi cannot play the role of international currency with respect to India or other countries. There is, therefore, an uncertainty on that side as well. In the meantime, Russia, which we know has a double-headed eagle symbolizing the great Mother Russia: one head looks towards the East and the other towards the West. In those reflections from twenty years ago, I wrote that it was necessary to work so that, somehow, the prevailing head of Russia would turn towards the West. There are two reasons for this: first, because it strengthens Europe and second, because the alternative is for Russia to fall prey to domination of China.

In Figure 12, the change in GDP shares from 2003 to 2030 is reported. The red line represents China, the black line the United States, the green line India and the orange line Russia.

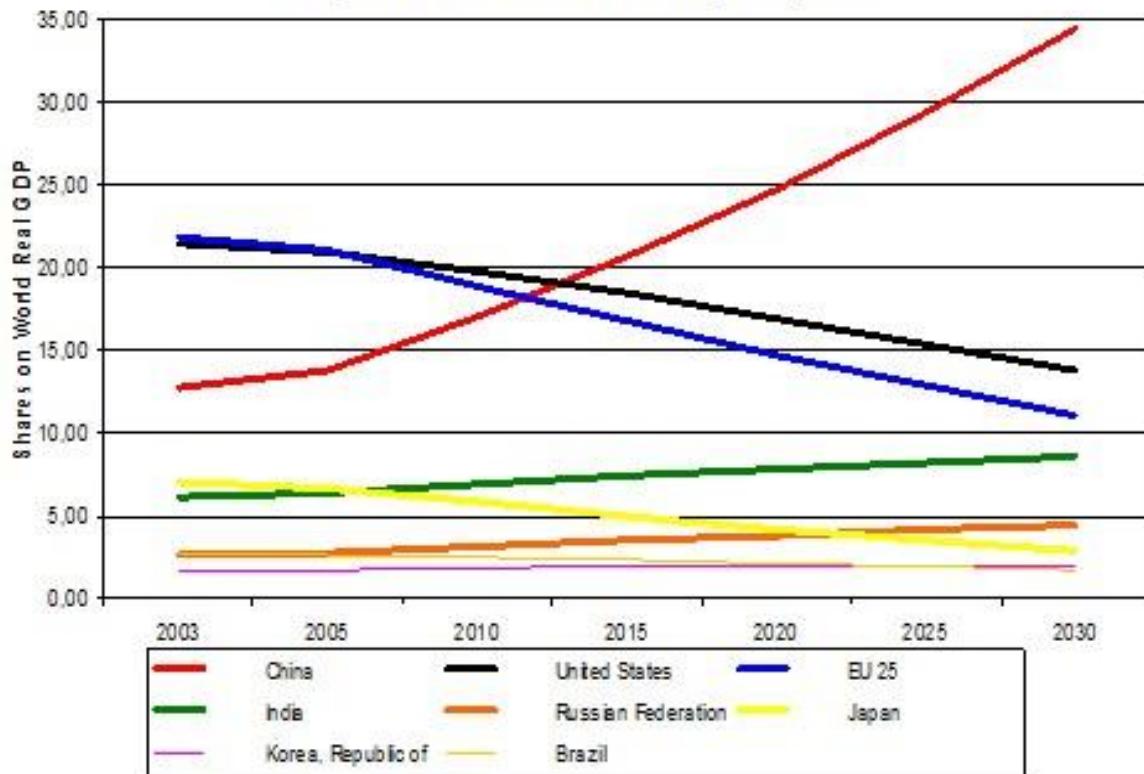
FIG. 12



By projecting GDP trends forwards, it is evident that by 2030 the largest economy in the world will be China, followed by the United States, India, Russia, and so on. Let's ask ourselves what would happen to the 27 European Union countries. Taken individually, they are confused and imperceptible in the lines close to zero. Only if we aggregate the Eurostat data by combining the twenty-eight countries of that time, including the United Kingdom, can we see them as represented by the light blue line of the European Union.

FIG. 13

Figure 4: "New" G8, considering Europe-25 (PPP)



Relatively speaking, the United States and Europe are losing economic weight but remain second and third, with China forging ahead on its own. We are, obviously, talking of absolute values and not in per capita terms. In fact, in order to reach the USA and Europe in terms of GDP per capita, China may have to wait another fifty years.

Thus, a new G8 was already emerging at that time, having understood that in order to govern globalization, you must incorporate China, the United States, Europe, India, Russia, Japan, a country from Latin America (Brazil?) and a country from Africa (South Africa or the African Union?), thus reflecting the new world's economic importance and weight.

The BRICS added South Africa in 2010 and is recently joined by Egypt and Ethiopia. However, can these three countries represent the entire continent? Do Africans from Morocco, Libya, Tunisia and Algeria feel represented by South Africa? It is clear that there was, and still is, a governance issue and an issue of how this governance should be composed in order to reflect the conditions of the different continents.

In summary:

1.- TODAY

we have IMF, WB, WTO representing the “old” governance and facing the new economic powers;

2.- TOMORROW

either we’ll have a fragmentation with 2 IMF, 2 WB, 2 WTO or more, asking ourselves how far in time will the next global crisis be

or we refound international institutions based in a new governance representing the new economic world power.

However, all this is subject to a condition that clearly derives from the fact that the blue line I placed on the graph as a mere statistical aggregate of Eurostat cannot be anything other than an institutional political entity. It is not enough, in fact, to sum up GDPs to say that EU is third in the world. We need to be a political entity. We have the experience of the United Nations Assembly almost every day. How can we assert our interests in that assembly with the G7 where there are four European countries individually represented and with the United Kingdom which has, in the meantime, left the Union? Together with Japan and Canada, these countries make up only one third of the world represented at the UN.

Therefore, we must proceed with a “funnel” vision. It is inevitable that, with respect to its institutional structure, Europe proceeds with three concentric circles.

The first circle starts from the considerations made since twenty years ago.

It is now even more evident to everyone that the European countries are not individually able to provide five fundamental collective public goods to their citizens. These public goods are **defense, security and immigration, foreign policy, large infrastructural networks with, at the forefront, energy and advanced research and technological innovation.**

In the last decades, Europe has relied on others for its prosperity and well-being. Defense has historically been provided by the Americans. Energy has been supplied at low cost by Russia and market development has been facilitated by China.

The first concentric circle must therefore be the United States of Europe since individual nation-states have long lost their sovereignty in these matters. Any potential sovereignty recovery can only be achieved at a higher federal level. Federal sovereignty applies primarily to those five key areas, while all other matters remain under national control. It's not a matter of surrendering sovereignty but of regaining it, as national sovereignty is permanently lost. The only way to reclaim it is through the federation of the United States of Europe.

The most straightforward nucleus to identify would be the Eurozone, but we could also start by saying that any one of the euro area twenty countries is welcome. For example, France, Germany, Italy and Spain together constitute 70% of Europe in terms of

population, GDP, employment and so on. However, doors should always remain open for all other countries to join.

In this regard, there would also be an example and an opportunity. In response to the COVID pandemic, Europe managed to launch the **Next Generation EU (NGEU)**, which, although temporary scheduled to end in 2026, can and should now become **permanent**.

It is worth noting that the ordinary budget of the European Union amounts to 1.5% of GDP. When combined with the Next Generation EU, spread over six years and provisional, it totals less than 3% of GDP. This could be the embryo of a European federal budget. In the United States, the federal budget is 25% of GDP. Now, there is quite a difference between 3% and 25%. By incorporating those five public goods into the Union's federal budget, we weren't proposing then, nor are we proposing now a revolution but only a necessary and inevitable adjustment in order to reach around 7-8% of GDP. Obviously, the federal budget must have its own revenue sources and common debt. To truly address environmental and energy transition, defense, security, etc., trillions of euros are needed; otherwise, it all boils down to mere talk.

Therefore, at the center lies this open hard core of countries while around it there is the **second circle, which is the European Union of 27**. Hence, the issue of enlargement becomes crucial, but only if there is the reference linchpin of deepening. Enlargement cannot be done without deepening because it would create a henhouse, where, as they used to say in my village, "with too many roosters crowing, it never becomes day." **Institutional deepening towards a federal budget and common debt is the cornerstone to seriously pursuing a necessary enlargement towards the Southeast Balkans which would potentially include even Ukraine.**

Lastly, there is a **third circle, which I named twenty years ago, the EAFTDA, Europe and Africa Free Trade and Development Area**. This is the broadest circle, and equally urgent to build, between Europe and Africa, following Enrico Mattei's forward-looking approach, rather than the many histories of colonial conquests, both past and recent. As I mentioned at the beginning, this, too, was evident twenty years ago.

I ask you now to reflect on whether what I thought and wrote twenty years ago can now be considered nonsense, a utopian and somewhat fantastical vision, or is it a urgent necessity. Furthermore, what is the alternative if we do not pursue this path?

In my opinion, the alternative is a Europe in decline in the twenty-first century (it has happened in centuries past and would not be the first time), with a North America that may barely hold its own, although I do not know how it will fare against the other seven billion people in the world.

We, the United States and Europe, represent one billion people. The fact remains that there are seven billion people outside of what we call the Western world.

So, is the twenty-first century the century of Asia, of China? Well, if we do nothing, it will happen. If, instead, we want this to be a century of global balance, also governed by the United States and Europe as protagonists, we need to be present together.

Neither of us can do this alone, Europe even less so than the United States, considering our lack of foreign policy, defense policy, etc.

I conclude with a simple observation: The United States of America has already been united, the United States of Europe has not yet been united.