

2014: The turning point in the post-crisis world

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Abstract: This article explores the significance of the current year in the evolution of the world economy. In 2014, it is for the first time after six difficult years when we can discuss about the post-crisis world. From this point of view, 2014 is a turning point in the evolution of the post-crisis world. This year the start of a genuine economic recovery will take place, according to current forecasts. In 2014, the average GDP growth for advanced economies will be 2.2% compared to 1.6 in 2013. The process of recovery is more pregnant in the United States and in the United Kingdom. At the same time, it is worth mentioning that the eurozone will experience a positive evolution after several years of negative growth. Let us not forget that the emerging world will experience a growth pace twice as big as that of the developed world. China is forecast to achieve 7.5% growth this year. Developing Asia and Sub-Saharan Africa are expected to lead the way as usual. In aggregate, the growth of emerging economies is forecast at 5.1% this year, up from 4.7% in 2013. This will diminish the gap between the developed world and the emerging world, respectively.

Keywords: financial crisis, post-crisis world, global GDP growth, emerging world.

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Economic shifts

We are used talking about the economic shift from West to East, about moving the centre of gravity of the world from the developed (Occidental) world to the emerging one (sometimes we talk about the Asian world). There is another shift of great importance: the shift from a crisis period to a post-crisis period. After six years of crisis, economic and social difficulties, the world as a whole begins to recover. The emerging world recovered faster from the crisis. But the year we recently started marks a visible recovery of the developed world. We can speak of a general recovery, of entering a new cycle, the cycle of normality. The period of actual crisis has passed; a new period is beginning, the post-crisis period. Martin Wolf talks openly about it in the very title of a recently published article: *The challenges of a post-crisis world* (Wolf, 2014). After many efforts, after the recovery had been long waited, after a short while ago in the USA there was a kind of nervousness motivated by the fact that the crisis extended more beyond initial expectations; certainties now appear on the horizon. When we speak of nervousness, we consider the title of Paul Krugman's book where

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the author – a Nobel Prize winner – imperiously asked that the efforts for ending the crisis to be more decisive, better coordinated (Krugman, 2012).

The post-crisis world has several important advantages in comparison to the one during crisis. But it is not missing challenges, it is not freed of many constraints. We can talk about a certain relaxation, as the economic growth is present on almost all meridians. And when it appears, economic growth represents a vital leverage for solving many pressing social problems. From this point of view, we can speak of a return of hope for better, about a – cautious – installation of a tempered optimism. But the post-crisis world is not devoid of challenges, some classical, others born in the last years: the ones preceding the crisis and the ones during the crisis. One of them is a certain frailty of recovery, as well as an unequal distribution of it, even within the developed world. Then, we cannot disregard in any way the fact that the emerging world continues to develop in a rhythm which is superior to the developed world, which represents the diminution of gaps, this world obtaining a special relief on the global level. For example, Gideon Rachman highlights that the future still belongs to the emerging markets (Rachman, 2014). Why does the author feel the need to highlight this? Because in the scientific literature a debate appeared once again: to whom does this century belong? To the same developed world – regardless of the name of the country at the top – or to the emerging world? This time, the debate is fueled by the recovery – especially by the recovery perspective – of the developed countries. The question is: are we dealing with a recovery that will shadow the rising of the emerging world, or is it about a recovery enabling the developed countries to exceed difficult problems the crisis entrained? From any point of view we discuss these things, the year which has recently started has a special significance. Because it is the beginning year of the post-crisis world, because, in its own way it is a turning point year. This is why before trying some broader assessments, we insist on the economic novelties of 2014.

Macro-economically, the year which has just begun has two main features. First, it will be the year when the West experiences indisputable redress. After six years of crisis, the developed world visibly comes to itself. US growth will rise to around 3%; Japan, to 2%, and the Euro zone, to 1.2% (Abruzzese, 2013), the overall development is highly encouraging and a safe indicator of a return to normality.

There are two circumstances worth looking into. First, the US economic progress: after several years of 1-2 percent growth, it seems that the US will experience a rise safely beyond what specialists call “technical recovery”. In most analyses, the secret of this recovery is associated with the recovery of banking, loan-giving, massive financial “injections” made by the Federal Reserves in the economy. If confirmed, the US development rhythm entitles the statement that “America is driving this recovery” (The Economist, 2014). Here we consider not only the reality that America registers the highest growth rate in the developed world, but also the fact that it will have the biggest contribution to the increase of the global economic growth rhythm. In 2014,

this growth will be at 4%, one percent more than in 2013, and will be maintained in 2015 (The Economist, 2014).

The least promising situation is to be found in Europe. The fast financial measures adopted in the US have not been taken here, the banks have not entirely recovered, and the development rates may fall within the “technical recovery”. The economic growth of the Union as a whole will be of 1.2 percent, but Euro-zone GDP is expected to expand in 2014 by only a modest 1% (Wallace, 2013, p. 42). Europe is a step behind the US, because it reacted belatedly and with less coordination to the crisis. Several more years will be necessary for robust economic growth in Europe. In other words, the revival depends a lot on the speed, quality and consistency of the answer to the crisis.

A second feature refers to the rise of the emerging world, which will continue throughout this year. First, let us make clear what we understand by the emerging world. If we made a survey, most respondents would point to the BRIC countries (Brazil, Russia, India and China) as the emerging world. About one year ago, an “S” standing for South Africa was added to this acronym. The change took place upon the reunion of the BRIC countries in South Africa, as a compliment and a sign of gratitude to the host country. But the emerging world extends beyond these states. For instance, Turkey, Mexico, Indonesia, Saudi Arabia, countries with constant, high development rates, are also included in this category. In the broadest sense, the emerging world is, as its name says, the moving world, the world that registers above-the-average development rhythms, the world that imposes itself and uses its competitive edge. Nobody has marked its borders. It is open to other candidates, on condition they perform well. It has variable geometry and special attraction: it is the rising world. Many countries would like to belong to this world, to this bloc of countries which assert themselves and whose economic power will one day be as high as or even higher than the developed countries'. One would certainly wish to belong to this emerging world!

What happened to this world in the last decade, the first decade of this century? It is here that we will be able to find the key to understanding the emerging world and its progress. The first decade of this century represented the decade the emerging world found its voice. In 2007, China developed at 14%, India at 8-9%, Russia and Brazil, at 6%. To understand the true significance of this rise, it is enough to mention that “it was the dramatic first phase of the emerging-market era, which saw such economies jump from 38% of the world output to 50% (measured at purchasing – power parity, or PPP) over the past decade. Over the next ten years emerging economies will still rise, but more gradually” (“The Great Deceleration, The emerging-market slowdown is not the beginning of a bust. But it is a turning-point for the world economy’, 2013).

The crisis came. When we use the phrase “global crisis”, we must take into account the significance of the term. Through its consequences, the current crisis – because, like it or not, the crisis is not over yet – is truly a global crisis, in the sense that it has global consequences. If we examine it more closely, then

this crisis is the crisis of the developed world. It started in the developed world (in the US) and nested in another important area of this world, the Euro zone. The emerging countries were much less affected by the crisis. 2009 represented for these states a year of economic downturn as well. They resumed their growth afterwards, but their rhythms, although important, never equaled those of the pre-crisis period.

For the first time in many years, the development rate of the emerging countries will decrease. China will stabilize at a rate of 7-8%. Apparently, the age of two-digit rates has ended. India, Russia, Brazil will grow at around 2-5%. On average, the emerging countries' rhythm will be around 5%. Much lower than the one before the crisis, but, still, double the rhythm of the developed countries. Consequently, the gap between the developed countries and the emerging states will decrease. Which are the advantages of the emerging countries, those levers that will help them stand out? These are advantages which do not change with the decades, which have a certain perennial nature. First of all, these are states of continental size, with a special profile on the world political scene, states with demographic growth (except for Russia), states with great natural resources, at a time when resources are becoming very important for development (see the intense dispute around Africa and its resources). It is not to be neglected that these states have acquired a huge experience of development against the background of globalization. Development nowadays differs greatly from development 50 years ago; each country in this group of dynamic countries has defined its own development strategy, which the crisis generally confirmed. In other words, the emerging world is better trained to face competition today. All this entitles us to talk about long term tendencies, which will mark the century, and not about processes fed by favorable circumstances.

China - assaulted by smaller "Chinas"

An entirely special phenomenon occurs in the emerging world: China is detaching itself not only from the world it belongs to – the emerging world – but, we dare say, from the developed world as well. The decade we are living is turbulent, but not seismic. It is a decade of resettlements. Or, in other words, it is the break history takes before another assault, another change of seismic nature. The following decade is the decade that will consecrate globally the new power relations. Here is the economic hierarchy of the world at the end of 2020. China will have 28% of the global GDP, the US, 18%, and the Euro zone, 12% ("Looking to 2060: „A Global Vision of Long-Term Growth", 2012). It is a dramatic change. The two superpowers of that time, China and the US, will certainly go shoulder to shoulder for a time. The US will preserve several important advantages: its cultural, technological and military powers, not to talk about the advantages resulting from the existence of the dollar as the main exchange and reserve currency in the world. Therefore, there will be no relay race. There will be quite a long cohabitation period, of maintaining the balance

between the two competitors, given by the advantages of each of the two super-powers. There will be a transfer, but it will be a long-term one, with ups and downs or even tensions.

China will no longer experience high growth rates. The two-digit growth era has ended for China. Its growth will stabilize at a rate of around 7-8%. Which is undoubtedly a downturn, but considering the developed countries' rhythms, it means very much: two, three times more than their growth. China's comparative advantage of cheaper labor force will diminish; China's role as a cheap labor force "factory" will be taken over by other countries in Asia and Africa. From this viewpoint, China will be assaulted by smaller, Asian, African or South-American "Chinas". Accordingly, the development rate of these countries with ultra-cheap labor force will be higher. Here are the countries with the highest economic growth in the world the next year:

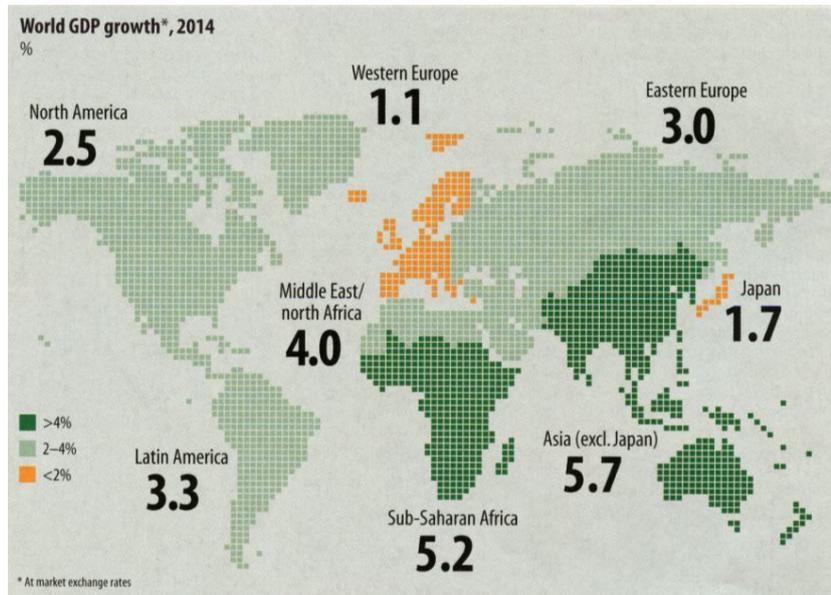
Figure 1. Top growers (Economist Intelligence Unit, 2013, p. 91)

TOP GROWERS		
Rank	Country	GDP growth, %
1	South Sudan	35.0
2	Mongolia	15.3
3	Macau	13.5
4	Sierra Leone	11.2
5	Turkmenistan	9.2
6=	Bhutan	8.8
6=	Libya	8.8
8=	Iraq	8.5
8=	Laos	8.5
8=	Timor-Leste	8.5
11	Eritrea	8.0
12	Zambia	7.9

Naturally, these are small countries whose development will not have an important impact on the world. We have mentioned their growth rhythms to prove that this is where the relay race takes place, a new development wave distributed mainly towards smaller countries, but with important economic potential and cheap labor force. The map of economic growth in the world will include three important groups, growth rhythms-wise: the developed states, the emerging states and a world which is in the making. For the moment, this third group has not been coined. What particularly characterizes these states is that they take over advantages the Asian states, mostly, and some of the emerging states, have enjoyed for the last decades.

Here is what this map for the next year looks like:

Figure 2. World GDP growth, 2014 (Economist Intelligence Unit, 2013, p. 91)

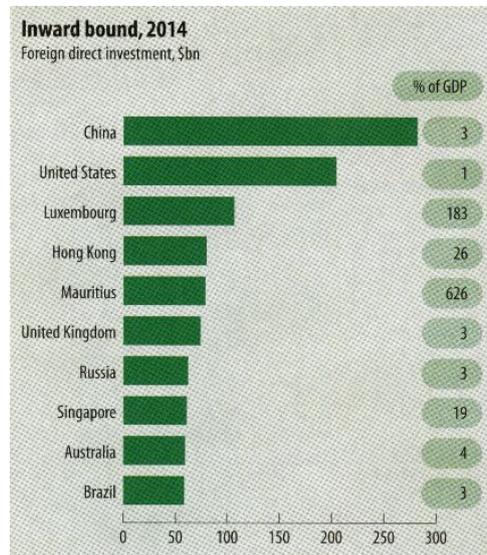


As we may notice, Asia (without Japan) continues to have the highest development rate, followed by Sub-Saharan Africa, the Middle East and Latin America. On the last place, from the perspective of this indicator – the growth rate – is Europe. However, it is encouraging that the European Union grows again, even at the lowest rate. It is still growth. Nobody can guarantee that these rhythms will be maintained in the following years. But it is sure that they will highlight medium-term tendencies. Africa still has to go a long way to get a unique geopolitical profile, even if it continues to benefit from high rates for years to come. To a certain extent, the same may be true for Latin America. The South-American continent has a leader – Brazil – which, geographically, occupies about one half of South America, it includes several countries with high geopolitical profile – Argentina, Chile, Bolivia – and benefits from demographic growth and natural sources.

Foreign direct investments are mostly going to China

However, when referring to the rise of the emerging world, we focus especially on Asia and, mainly, China. We are hardly aware of the importance of the fact that the emerging world's real leader is China, the most populated country in the world, a country which not only has high growth rates, but also provides security for businesspeople. Let us look more closely at the table below, at the countries which receive the greatest part of foreign direct investments:

Figure 3. Inward bound, 2014 (Economist Intelligence Unit, 2013, p. 91)



Why are these figures significant? For several reasons. The first refers to the fact that the foreign direct investment represents a synthetic indicator. Besides the fact that it represents an amount of money, that capital does not necessarily come as cash. It comes this way, but it is accompanied by technology and management. It is, therefore, an investment. And who makes the investment – in this case, the foreign capital – is directly interested in its success, in the recovery of the money invested. From this point of view, the direct investment represents the most efficient formula for modernization, for bridging the gap, for recovery. In the second place, the direct investment expresses an indicator of the capital's trust in the country, the economy where the investment is made. When assigning money or technological, managerial assets, the concern for risk reduction is fundamental. The direct investments are probably backed by the most rigorous risk analysis and are the most accurate indicator of a region's stability, progress and future. Because it involves a great financial effort, the direct investment is preceded by a rigorous, acute, exhaustive analysis. It can be said that the map of direct investments is also a map of trust in various countries and areas, of their progress potential. At first sight, direct investments seems an economic issue, we may say a predominantly technical problem in the field of economic themes. But, in reality, the foreign direct investments represent a complex indicator and one of the most efficient development and modernization formulas for countries and regions.

Finally, the third thing we would like to underline is the change in the hierarchy at "the top" among receivers of direct investments. For years, we may say decades, practically the entire period following WWII, the country which benefitted from the most important foreign direct investments was the US. The US was by far the leader in the race for foreign capital. As far as we know, it

is for the first time that China takes the lead in this race. This is the cumulative effect of several factors, all of which are associated to the crisis. First of all, the crisis lasted more than originally foreseen. Assessments of rebound have not been confirmed. Yes, after 2010, the US started to grow economically, but that was what the specialists call “technical recovery”, a recovery of 1-2%, which is important, but not sufficient to allow us to speak of rebound.

Except 2009, China has developed at a rate of 9-10%. Moreover, and this is something easily forgotten, the crisis represented a solidity test, as well. China was also affected, but the state intervened with many seen and unseen, known and unknown financial injections. China also benefits from its huge currency reserve, evaluated at over three trillions. Therefore, China is not overburdened by debts, it even has the enormous advantage, during such a period, to lend and invest its own savings, with all the positive consequences resulting from this. These are some of the causes that explain the orientation of foreign capital towards China. To speak plainly, we could say that now, China’s economy inspires higher trust in the investors than any Western economy.

Not to mention something essential. Money, technology, management, arriving on Chinese land will constitute a remarkable progress potential in the following period, which is another advantage for China. Besides the above mentioned items – the existence of a huge currency reserve, the impressive manufacturing, the pragmatic and flexible strategy – China benefits from the largest volume of foreign direct investments in the whole world. Therefore, it has built another “engine” of its own evolution and of its own progress. Which – at least for us – is very important. Not just because, as we have already underlined, it is very powerful, but because it combines many other non-economic elements, such as trust in the stability of the country and the solidity of its evolution.

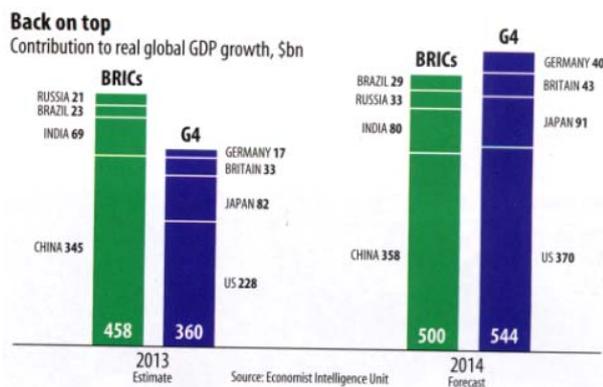
Yet, if we examine the evolution of the contemporary society on a greater compass of time – several decades or even the entire 20th century – then it is reasonable to consider that emerging states would have an increasingly larger share in world economics. Their developing rhythms, superior to the ones of developed countries pleads in this meaning. In the same time, we cannot deny that they accumulated an experience of globalization conditions, they achieved certain advantages which cannot be disregarded in the present moment. From this point of view, Gideon Rachman rightfully highlighted: „The reason for this is that the factors that have propelled the rise of non-western economies in the past 40 years still apply. These include lower labour costs, rising productivity, huge improvements in the communication and transport that connect them to the global markets, a rising middle class, a boom in world trade as tariffs have fallen and the spread of best practice in everything from management techniques to macroeconomic policy. Added to this is the drive of people all over the world - from factory hands to entrepreneurs - who have realised that they are not condemned to poverty, and that a better life is there for the taking” (Rachman, 2014).

If we speak of tendencies on the global level, professional rigor obliges us to report there is a proper dynamics in the case of the developed world, as well as inside the emerging one. The same author, Gideon Rachman signals from this perspective an extremely interesting thing. When speaking of the emerging world, the acronym BRIC (Brasil, Russia, India and China) immediately comes to mind. Jim-Jim O’Neil, formerly of Goldman Sachs, the author who launched the formula which became so known obtained a sort of guru status. Few people know that, recently, the same author has launched another formula: Mints (Mexico, Indonesia, Nigeria, Turkey) as the next group of rising economic powers. Of course, many things can be discussed regarding this new formula. For example, Turkey is not experiencing the most beneficial period, as known. We can say that the list remains open, countries such as South Africa, Saudi Arabia can be reserved. It is important here to highlight the dynamics, the fact that the world is in a more and more visible movement. In the context of globalization and benefiting from the instruments this process offers to the world nowadays.

Economic bipolarity

Let us examine more closely the diagram below.

Figure 4. Back on top (Economist Intelligence Unit, 2013)



It unveils a truth: 2014 is the first year since the start of the crisis when the US contribution to the increase of global GDP is higher than China’s. Just as the contribution of the first four developed countries – the US, Japan, Germany and Great Britain – to global GDP is higher than the one of the first four emerging countries – China, India, Russia, Brazil. If we compare this year’s statement to last year’s, we will realize the magnitude of the change. It expresses a true recovery of the West. Japan starts to grow, too, Germany keeps its robust rhythms we are used to, and, finally, the European Union returns to growth. All this is “melted” in the diagram above. The fact that the developed world recovers is entirely encouraging. There is a return to some kind of balance between the developed and the emerging world.

There is another aspect we would like to mention. In fact, when we talk about the BRIC countries, we talk, mainly, about China. China's contribution to the GDP of BRIC countries is around 40% ('Brics summit face big challenges on growth', 2013), and this country's contribution to the growth of global GDP is bigger than the overall contribution of the other countries (India, Russia and Brazil). If we look more carefully, we will discover that, in fact, China's contribution to the global GDP is bigger than the overall contribution of three developed countries: Japan, Germany and Great Britain. In fact, the economic reality of the world nowadays projects two major powers: the US and China. The power relations between them are less significant than economic power. It is true, the US maintains an important advantage. Judging by various economic bodies' assessments, in the following years China will get closer to the US. It is of great relevance that, economically, at least in the following years, we will witness a kind of an economic bipolarity. There will be two main powers: the US and China. The rest, whether we talk about Japan or Russia, about Germany or Brazil, Great Britain or India are, all of a sudden, powers that play in the second world league. We do not wish to underestimate either the performances of Germany or Japan, or the potential of Russia, India or Brazil. We have simply taken into account the dimensions of those two powers, which seem to reconsider the rest as lesser powers.

Conclusions

2014 is the first year when the growth paces both in the developed world and the emerging world, respectively, are closer to the pre-crisis levels. Although the shortfalls in output compared to pre-crisis trends are big enough in these developed countries: 13% in the eurozone, 15% in the US and 18% in UK. Emerging countries will diminish their growth trends, but they will still grow at an impressive pace. Overall, the chances of an exit from an era of crises seem bigger than before. They should be seized.

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