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The systemic financial importance of emerging powers☆

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Abstract

Economic turmoil in advanced industrial economies since the 2008–9 crisis has intensified perceptions of rising global multipolarity. Several indices of the relative material capabilities of countries exist, yet few address a state's potential for financial influence abroad. We analyze indicators of a country's importance as a financial asset owner and participant in globalized financial markets, examining 180 countries during 1995–2010. The United States displays a high and stable systemic importance. An increase in the share of the BRICS countries, especially China, mirrors a strong decline in the global weight of Japan (still a senior financial power), and to a lesser extent, most other advanced industrial countries, with the exception of Germany.

Keywords: Emerging powers; BRICS; Financial power; Multipolarity; Monetary power

1. Introduction

Is the world becoming more multipolar and if so, how quickly? This paper responds to two compelling observations. First, pundits and policymakers in the wealthy industrial democracies

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recently have become convinced that countries such as China, India, and Brazil, whose domestic affairs once seemed remote, are now "emerging powers," whose choices will have significant impacts on the well-being of advanced industrialized as well as developing countries (for example, Bergsten, 2008). Former U.S. Treasury Secretary Lawrence Summers wrote on the eve of the worst days of the recent global financial crisis:

> It has become a cliché to suggest that the world's institutional approaches to economic co-operation need overhauling to take into account the rising economic clout of emerging markets and the decline in dominance of the group of seven leading industrialized nations (G7). This is correct. The steps taken so far. . .are valuable if insufficient" (*Financial Times*, August 25, 2008).

Second, the increasingly dense web of cross-border financial obligations linking firms and individuals worldwide has been volatile in the short-term, and may be shifting its basic structure over the medium- to long-term. The future of Western Europe and the euro is clouded. The eurozone could survive as it stands now, sustained by half-hearted and ad hoc interventions rather than serious multilateralization ("regionalization") of fiscal policy or financial regulation. Yet this dynamic, if continued, would reduce the systemic financial importance of Western Europe and the eurozone over time (Cohen, 2012b). Meanwhile, Britain, for centuries Europe's financial center, flirts with exiting the EU altogether (Economist, 2012). One alternative scenario projects China as the new global financial hegemon (Subramanian, 2011).

How might we assess these trends? The paper's second section reconsiders a way of conceptualizing interstate "power" sometimes dismissed as outmoded. Section three reviews types of financial "power," then introduces the research project. The paper's fourth and fifth sections describe our methods and analyze our findings. The conclusion returns to the larger questions, summarizing our responses and suggesting further research directions.

2. The future of an anachronism? The "power-as-resources" approach in international relations theory

The most straightforward means of investigating possible shifts in the structure of the interstate system is through mapping the interstate distribution of capabilities over time. However, a contemporary international relations scholar choosing to construct a relative capabilities index for nation-states makes some controversial theoretical choices (Garrett & Tsebelis, 1999).

At one time the dominant discourse in political science identified actors—whether politicians, interest groups, or sovereign states—as either "powerful" or less so, with power, or more accurately potential power, understood as a characteristic of the actor (subject) being observed. Potential power, of course, was not an absolute quality, analogous to height, but instead was a relational quality, such as being "short" or "tall." a judgment that necessarily implies a comparison with other similar actors or units in an interpersonal, inter-unit, or interstate system.

Today, however, the majority of contemporary scholars of international politics reserve the term "power" for relations of realized influence. Barnett and Duvall (2005), for example, write that, "Power is the production, in and through social relations, of *effects* that shape the capacities of actors to determine their circumstances and fate" [emphasis added] (39). In distinguishing among four sub-types of power, they include not only the direct and intentional exercise of influence by actor A over actor B, but also various types of indirect and attenuated influence, such as A shaping the rules of institutions within which B must act, the unintended consequences (externalities) for B of A's actions, and even the ways in which A's choices, often unintentionally, shape the future