

G-Zero

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Today, no single country or bloc of countries has the political and economic muscle to drive the international agenda. America is struggling to pay its bills, Europe is busy trying to restore confidence in the eurozone, and the world's emerging powers are wrestling with too many complex problems at home to accept the risks and burdens that come with international leadership. Over the next several years, this simple problem will alter the global balance of power like nothing we've seen in the past seven decades, with far-reaching implications for all of the world's most pressing problems.

The decisions of greatest import for international politics and the global economy were once made by the G7, leaders of the world's largest industrialized democracies. The Cold War ended, and the G7 became a "G7 plus one," as Russia was invited to join to ensure that Soviet communism remained dead. But it is the events of the past three years that have fundamentally changed the international order.

The financial crisis and global recession have had much greater impact than the fall of the Berlin Wall on the balance of political and economic power, because market meltdown in the West and recognition that today's transnational problems can't be resolved without engagement from China, India and other emerging powers have forced G7 leaders to make room at the bargaining table for the most dynamic of the emerging powers.

Some heralded the arrival of G20 as a great achievement, one that created a forum that finally reflected not only the world's true balance of power but its social and cultural diversity. Unfortunately, the G20 is more a prayer than an institution. Getting 20 negotiators to agree on anything beyond declarations of principle is enormously difficult. Building detailed agreements among leaders with profoundly different political values and interests is all but impossible. For a generation, Americans and Europeans have believed globalization was their game—and that by welcoming hundreds of millions

of amateurs to the table they were merely building the size of the pot. But the new players want more than seats at the game. They want new rules, and the West isn't yet prepared to accommodate them.

Forget the G7, the G8 and the G20. Welcome to the age of G-Zero, where international gatherings are more likely to produce conflict than cooperation.

Conflicts over rules and values will stoke volatility for the global economy. It will encourage new challengers to test American power, breed competition for regional dominance (particularly in Asia and the Middle East), speed proliferation of the world's most dangerous weapons by making it more difficult to isolate outlaws, and persuade some governments to develop a new generation of tools, like cyber weapons, to punch above their weight in international disputes. It will create new barriers to the flow of capital, inhibit free trade, and make it all but impossible to address transnational problems like climate change.

The G-Zero will have its winners and losers. The winners include all those emerging powers who want to grow without the limits that status-quo players in America and Europe might force on them. They want to speed growth and generate hundreds of millions of new jobs by insisting that their development remains at a vulnerable stage and deserves special rules to keep things on track. Authoritarian states will more easily deflect pressure

for political reform as growth-hungry established powers compete with one another for access to their cheap labor and newly affluent consumers. Outlaw states will have an easier time developing the weapons they hope can guarantee their security. The likeliest losers are established powers like America and Europe's largest states, which will see fewer of the benefits from a global economy no longer driven by Western-led globalization and may well be forced to accept lower standards of living as debts are paid and living standards fall.

In a G-Zero world, we can expect energy-exporting countries to resort even more often to resource nationalism, a process in which governments use a country's natural resources to enhance their geopolitical and economic leverage. We'll also see an intensification of the competition between state-owned energy firms, which already control more than three-quarters of the world's crude oil reserves, and multinational companies, which will have to become ever more creative in exploiting competitive advantages—in deepwater production, for example, or the provision of services. Political uncertainty will produce greater price volatility, increasing the need for risk management and hedging strategies for those who lack an information advantage. Those with greater access to accurate market information will find new opportunities to speculate and profit from market moves—though the cost and impact of getting it wrong will rise.

G-Zero is just a transition—from the world we know to one we must begin to imagine. This transition won't last long, because the inability and unwillingness of established and emerging powers to compromise and coordinate will spark all kinds of crises that must be addressed. For example: As hundreds of millions more people across the developing world migrate toward tomorrow's cities in search of opportunities, the demands on the world's available oil, food, and water will provoke intense competition for resources, drive prices much higher and inflict enormous environmental damage. A decade from now, today's emerging powers will begin to look and act a lot more like established players. They'll have a larger stake in ensuring that stability creates prosperity. The crises these problems provoke will force a new level of cooperation, maybe even coordination.

Between now and then, however, policymakers and investors must prepare for the great rebalancing, the most fundamental shift in the world's political and economic balance of power since the end of the Second World War.

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