The world is upside down

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For a while the world was flat. Now it’s upside down.

To understand it, invert your thinking.

See the developed world as depending on the developing world, rather than the other way round. Understand that two-thirds of global economic growth last year came from emerging countries, whose economies will expand about 6.7 percent in 2008, against 1.3 percent for the United States, Japan and European countries.

The sharp rise in prices for energy, commodities, metals and minerals produced mainly in the developing world explains part of this shift. That has created the balance of payments surpluses fueling dollar-dripping sovereign wealth funds in countries like China. They amuse themselves picking up a stake in BP here, a chunk of Morgan Stanley there, and why not a sliver of Total.

We of the developed-world Paleolithic species are fair game for the upstarts now, our predator role exhausted. The U.S. and Europe may soon need all the charity they can get.

To place this inversion in focus, it helps to be in Brazil, where winter (so to speak) arrives with the Northern Hemisphere’s summer, and economic optimism, as exuberant as the vegetation, increases at the same brisk clip as U.S. foreclosures.

Huge offshore oil finds, a sugarcane ethanol boom, vast reserves of unused arable land, mineral wealth and abundant fresh water contribute to Brazilian buoyancy. But natural resources are only part of the story. As in China and India, an expanding internal market is bolstering growth. So is increasing corporate sophistication and global ambition.

At the annual National Forum, a gathering of business leaders, I felt like a first-world pipsqueak as leaders of the national energy company Petrobas (bigger than BP, Shell and Total) and Companhia Vale do Rio Doce, or CVRD (the world’s second largest mining company), reeled off head-turning statistics.

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"With the latest discoveries, the South Atlantic will become a huge oil producer," predicted Jose Sergio Gabrielli de Azevedo, its chief executive.

Rogério Marinho of CVRD warned that the United States (“it’s full of debt”) to focus on the company’s ambitions in Asia. It was imperative to be there, he said, because that’s where growth, capital and ambition are. China, he noted, will account for 55 percent of iron ore consumption, 31.6 percent of nickel, and 42 percent of aluminum by 2012. Case closed.

Like many other big emerging-market corporations, CVRD has been on a buying spree. It’s not just sovereign wealth funds that are acquiring first-world companies these days. It’s the new giants of the NAM (Newly Acquisitive Nations).

Emerging-market mergers and acquisitions are up 17 percent this year to $218 billion, while for the rest of the world they’re down 45 percent to $991 billion, according to Thomson Reuters.

The 2007 Unctad World Investment Report said developing-world direct foreign investment totaled $193 billion in 2006, compared to a 1990s annual average of $54 billion. The U.S. 2006 figure was $216.6 billion.

CVRD bought Canada’s Inco, a nickel miner, for $17 billion in 2006. It came close to acquiring the Anglo-Swiss miner Xstrata for $90 billion this year. Just last week, India’s Vedanta Resources reached a $2.6 billion deal to buy U.S. copper miner, Asarco. That deal is being challenged by Grupo Mexico, creating a Latin-American-Asian fight for a U.S. company.

If you have trouble getting your mind around that, try standing on your head.

That’s also a good position from which to view India’s Tata Motors agreeing to buy Land Rover and Jaguar from Ford for $2.3 billion, or Tata Steel’s acquisition last year of the Anglo-Dutch Corus Group steel company for $12 billion.

Globalization is now a two-way street; in fact it’s an Indian street with traffic weaving in all directions.

"In an inverted world, not only have developing economies become dominant forces in global exports in the space of a few years, but their companies are becoming major players in the global economy, challenging the incumbents that dominated the international scene in the 20th century," said Claudio Frischtk, a Brazilian economist and consultant.

A shift in economic power is underway whose implications the developed world has not grasped. Of course the G-8 and the permanent membership of the UN Security Council need to be expanded to reflect this change. The 21st century can’t be handled with 20th-century institutions.

That’s obvious. Less obvious is how the United States, which underwrites global security at vast expense, begins to share this burden, so that the new multi-polarity of wealth is reflected in a multi-polarity of security commitments.

Headstands are in order for the next U.S. president.

Roger Cohen

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