Additional materials M2.
The Emerging Financial Periphery

This appendix addresses the issue of the U.S. and European financial hegemony from the viewpoint of the rest of the world. As in Appendix A1, the situation is approached as it prevailed prior to the crisis.

Considered globally, other countries are still lagging far behind the two leaders, but some among these countries are unquestionably growing in importance. The distribution of wealth worldwide is rapidly changing, and large corporations are simultaneously emerging in the periphery. A new development is, thus, the apparition of "challengers": the rise of potentially competing powers—rich individuals, financial institutions, and transnational corporations, competing with corporations from the most advanced countries.

There are two aspects to these developments. A first element is the mere existence of challengers, and their establishment as major players in the global economy, that countries of the center must confront. The second aspect results from the external deficits of the U.S. economy. It is the gradual involvement of these rising countries into the ownership of capital, as in the financing of the U.S. economy, a consequence of the neoliberal macro trajectory of the country.

U.S. deficits are there and will last, even if they temporarily diminish or disappear during the crisis. It is, therefore, necessary to examine more carefully the mechanisms and trends of the financing of the U.S. economy by the rest of the world. This financing is shared to comparable extents between Europe, Asia, and oil-exporting countries. The main threat for the U.S. economy is the attempt by emerging countries to increase their returns and control, to become more demanding as "capitalists". The crisis considerably altered this situation, but the threat is still there. An additional element is the changing situation of indebted countries of the periphery, notably vis-à-vis the IMF, that also modifies power relations worldwide.

Capitalism in the periphery

Concerning billionaires worldwide, the assessment of the comparative wealth within countries of the periphery depends considerably on the exact criterion used. As of 2008, there was 1 125 billionaires in the world, of which 226 from Brazil, Russia, India, and China (BRIC), including

Hongkong. This figure must be compared to the situation in the United States, with 469 billionaires, and Europe, with 195. Focusing on the 25 wealthiest persons in the world, 15 belong to the periphery: 7 in Russia, 4 in India, and 2 in Hongkong. Among the 10 others, 4 were from the United States, 2 from France, 2 from Germany... Considering the 200 wealthiests, still 40 percent belong to the periphery: 29 from Russia, 14 from India, 6 from Hongkong. In this group, there is only one billionaire from China excluding Hongkong, but China occupies the fifth place when all billionaires are considered. Classifying billionaires by decreasing order of wealth, the first in the list is of U.S. nationality and the second is Mexican. The first from India comes fourth; the first oil Emir ranks 19th; the richest Chinese billionaire is number 125, and the second number 227.

The image is different when stock-market capitalizations are considered (Table M1.4). The capitalization of the three Chinese big exchanges (Shanghai, Shenzhen, and Hongkong) is almost as large as the total capitalization of London and the Euronext.

In the list of the largest corporations worldwide, new actors from the periphery are gradually appearing. This rise of giants from the rest of the world is a well known phenomenon and a source of concern for countries of the center (Box 24.1). Table M2.1 shows the number of corporations ranking among the top 500 classified by market capitalization, for the third quarter of 2003 and the first quarter of 2008. U.S. corporations dominate, but it also appears that the situation is rapidly changing. In 2003, 234 among the top 500 were U.S. corporations; in 2008, the number has been reduced to 169 (−65). Japan lost 19 corporations. Europe is in progress (+16), but much less than BRIC countries (+50, China gaining 25, followed by India and Brazil).

Table M2.1 - Number of corporations ranking among the top 500 by market capitalization (3rd quarter of 2003, 1st quarter of 2008, and variation)

	3rd quarter 2003	1st quarter 2008	Variation 2008-2003
United States	234	169	−65
Japan	58	39	−19
Europe	135	151	16
BRIC	12	62	50
China	0	25	25
India	3	13	10
Russia	7	13	6
Brazil	2	11	9
Other	61	79	18
Total	500	500	0

These trends are confirmed by the situation prevailing at the top of the top (Table M2.2). Among the ten largest corporations, the number of U.S. corporations diminished from 8 to 5. Two Chinese corporations appear, one from Hongkong, and one from Russia. In the first quarter of 2008, Japan has none, and Europe, only one. As an effect of the crisis, the list will be profoundly modified.

Table M2.2 - The 10 largest corporations
by market capitalization
(1st quarter 2008)

1	Exxon Mobil	United States
2	PetroChina	China
3	General Electric	United States
4	Gazprom	Russia
5	China Mobile	Hongkong
6	Indl & Coml Bank of China	China
7	Microsoft	United States
8	AT&T	United States
9	Royal Dutch Shell	Netherlands/U.K.
10	Procter & Gamble	United States

Financing the U.S. economy: Asia and oil-producing countries

Who are the new providers of funds worldwide? The countries or regions of the world can be separated between those with a surplus of their current account that contribute to the financing of those with a deficit, among which the United States rank firsts. In 2006, the total global surplus amounted to $1.3 trillion. In 2006, the U.S. current account deficit was $829 billion. Thus, these countries with surpluses also finance the deficits of countries other than the United States for about $500 billion.

Table M2.3 shows these current-account surpluses for various regions of the world between 1995 and 2006. A preliminary observation is their dramatic rise, multiplied by more than 4 in eleven years. The table stresses the rising role of Europe, Asian countries, and, primarily, oil-producing countries, leading in 2006. The surplus of European countries or Asia was multiplied by a factor of about 3, but that of oil-exporting countries exploded.

Who finances specifically the U.S. economy? The contributions outstanding of the various countries or regions of the world to the financing of U.S. external deficits are unknown, only the annual flows of investment. Table M2.4 shows these flows of investment from the rest of the world to

Table M2.3 - Net capital outflows from countries with current account surpluses (billions of dollars)

	Oil-export. countries	East Asia	Western Europe	Rest of the World	Total
1995	35	133	110	4	282
2000	192	198	89	30	509
2005	429	435	268	69	1199
2006	484	446	308	81	1319

the United States. The figures are yearly averages for the period 2003-2007. The first lines restate the data in Table M1.8 for the total flows of financing from the rest of the world and Europe.

As stated in M1, Europe contributes to 45 percent to the overall financing of the U.S. economy by foreign countries. Consequently, almost 55 percent comes from outside Europe. Two major such contributors are evident: (1) Asia and Pacific (with about one fourth of the total worldwide); and (2) Other Western Hemisphere (OWH), which includes, in particular, the off-shore centers of the Caribbean, with about one fifth of the total. Middle East and South and Central America appear considerably smaller.

Table M2.4 - Increase in foreign-owned U.S. assets (yearly average 2003-2007)

	billions of dollars	percent of U.S. GDP	percent of total
Total	1 552	*12.3*	*100.0*
Europe	701	*5.5*	*45.2*
United Kingdom	429	*3.4*	*27.7*
Asia and Pacific	377	*3.0*	*24.3*
China	171	*1.3*	*11.0*
Japan	112	*0.9*	*7.2*
South and Central America	63	*0.5*	*4.0*
Other Western Hemisphere	299	*2.4*	*19.3*
Middle East	30	*0.2*	*1.9*
Other	82	*0.7*	*5.3*

The low percentage (2 percent) for Middle East contradicts the large surplus of oil-producing countries in Table M2.3. It is difficult to imagine that this region of the world does not finance the U.S. economy. This observation suggests that these countries do so "indirectly", through the channel of other countries. Other sources show that oil-producing countries are the largest investors in tax havens worldwide. One can, therefore, surmise that a large share of OWH hides the investment of oil-producing countries. But one can also notice the large percentage observed for the

United Kingdom (with its own tax havens, Jersey, Guernsey, the Isle of Man), which indicates that this country also acts as intermediary.

Table M2.5 shows such net, instead of gross above, contributions to the financing of the U.S. economy, that is, subtracting reciprocal flows. In this metric, the role of Europe appears much smaller, slightly more than 20 percent, coming from the United Kingdom, itself acting as intermediary. The contribution of continental Europe is very small. Asia and Pacific dominates with 41 percent, in which Japan accounts for 11 percentage points, and China, for 25 percentage points, that is, more than Europe (actually the United Kingdom). The contribution of OWH is 25 percent.

Table M2.5 - Net increase in U.S. foreign-owned assets (yearly average 2003-2007)

	billions of dollars	percent of U.S. GDP	percent of total
Total	669	*5.4*	*100.0*
Europe	143	*1.1*	*21.4*
United Kingdom	125	*1.0*	*18.6*
Asia and Pacific	277	*2.2*	*41.5*
China	170	*1.3*	*25.4*
Japan	75	*0.6*	*11.2*
South and Central America	33	*0.3*	*4.9*
Other Western Hemisphere	169	*1.3*	*25.3*
Middle East	23	*0.2*	*3.4*
Other	23	*0.2*	*3.5*

Thus, comparing Tables M2.3 and M2.5, one can conclude that most of the net financing of the U.S. economy comes from two regions of the world, Asia and Pacific, and Oil producing countries, with the United Kingdom and OWH acting as intermediaries. It is, however, impossible to provide accurate estimates, given the complexity of transmission channels.

More demanding foreign investors

A central feature of the situation of foreign investors in the U.S. economy is the still low return on their investments. The total stock of U.S. assets of foreigners is almost twice as large as U.S. held foreign assets, but the income flows resulting from such investments are approximately equal. This means that the returns of the formers are almost twice smaller.[1]

If, in the past, the behavior of foreign investors was one of rentiers, buying government securities (central banks purchasing Treasury bonds

1. G. Duménil, D. Lévy, "Néolibéralisme: dépassement ou renouvellement d'un ordre social", *Actuel Marx*, 40 (2006), p. 86-101.

from the early 1970s onward), these rentier foreigners now finance the U.S. private sector (Table 10.1). The real threat for the U.S. economy, abstracting from the contemporary crisis, is that these foreign investors become more demanding in terms of returns. Why would they be content with low returns when their contribution becomes, every year, more necessary? Given the accumulation of foreign assets, it is not surprising to observe that their owners — individuals, firms, or SWFs and Central banks — ambition to escape from their subaltern position, claiming their due share of powers and incomes. Clearly, the contemporary crisis stimulated this new aggressiveness on the part of foreign capital during the first phase of the crisis when the collapse of the U.S. financial sector was not yet obvious.

An enhanced participation of foreign investors in global capital income would have dramatic consequences for the United States. An increase of two percentage points on the rates of return of foreigners investing in the United States (a moderate rise) would increase the U.S. current balance deficit by $300 billions, knowing that total deficit in 2007 was about $800 billion. Balanced rates of return between the assets of the rest of the world in the United States and U.S. owned assets in the world would mean a drastic subtraction from U.S. capital income, and an even larger deficit of the U.S. current account.

The rise of Sovereign funds

Much is now being written about Sovereign funds, the new gigantic financial institutions. Sovereign wealth funds (SWFs) are: "State owned funds which invest primarily in financial wealth".[2] They can be classified in three categories: Central bank reserves (for example, the People's Bank of China), Sovereign pension funds (Government Pension Fund of Norway), and SWFs proper (Abu Dhabi Investment Authority). Sovereign wealth funds act like investment banks. Instead of passively investing in treasury bonds, these funds seek large returns. They manage almost $4 trillion in a total of $13 trillion for all Sovereign funds. (A comparison can be made with other masses of assets, as in Table 7.1.) The list of the 12 largest Sovereign wealth funds is given in Table M2.6.

The strategy of SWFs changed gradually. They originally used to invest in riskless securities, such as Treasury bonds. They began to diversify their investments prior to the crisis. During the first phases of the crisis, they purchased the shares of ailing financial corporations at a low price in comparison to the price before the crisis, but still high given the subsequent collapse. As of early 2009, SWFs hire financial managers that lost their job because of the crisis. They direct their investment toward raw materials, large countries of the periphery (such as Mexico and Brazil), and domestic investment.

2. The Future of the Global Financial System, A Near-Term Outlook and Long-Term Scenarios, Davos 2009.

Table M2.6 - Twelve largest SWFs ranked by assets under management (billions of dollars, January 2009)

	Country	Fund Name	Assets
1	UAE - Abu Dhabi	Abu Dhabi Investment Authority	875
2	Saudi Arabia	SAMA Foreign Holdings	433
3	China	SAFE Investment Company	347
4	Singapore	Government of Singapore Invest. Corp.	330
5	Norway	Government Pension Fund - Global	301
6	Russia	National Welfare Fund	225
7	Kuwait	Kuwait Investment Authority	203
8	China	China Investment Corporation	200
9	Hongkong	Hongkong Monetary Auth. Invest. Portfolio	173
10	Singapore	Temasek Holdings	85
11	UAE - Dubai	Investment Corporation of Dubai	82
12	China	National Social Security Fund	74
Total of 49 sovereign wealth funds			3 916
	Total Oil and Gas Related		2 485
	Total Other		1 431

Countries of the center are rather on the defensive. The leaders of the G7, meeting in October 2007 in Washington, asked the IMF to scrutinize the activity of SWFs. More “transparency” is wished, but it is hard to imagine why SWFs should abide by disciplinary rules to which large private institutions do not comply (Box 24.1). The concern in the United States is, however, mostly political, although the boundary between national security and private interest is fuzzy.

The worry is not really new. In 1988, the United States voted the Exon-Florio Amendment, giving the President power to stop foreign acquisitions when “U.S. security” was endangered. In 2005, when the China National Offshore corporation manifested the desire to buy Unocal (a U.S. oil firm), the process was blocked. Even more emotion was created, in 2006, by the determination of Dubai Ports World to buy the port operations of the U.K. Peninsular and Oriental Steam Navigation Company, leading to the control of major U.S. ports. The Foreign Investment and National Security Act (FINSA), strenghtening the Exon-Florio Amendment, was voted in the United States in October 2007. In November 2007, the OECD asked the Critical infrastructure protection program to prepare a white paper for its Roundtable on freedom of investment, national security and “strategic” industries. These measures can be interpreted as advances in the direction of protectionism (obstacles to the international movements of capital).

As of early 2009, the latest information available shows that, within countries of the center, the trend during the crisis is toward diminished DIA and obstacles to foreign direct investment from the rest of the world.

The "third-world debt": The IMF's lost stick

The debt of countries of the periphery to the IMF culminated during the second half of the 1990s (Korea in 1997 and Russia in 1998), the period of neoliberal crises in the periphery. Under such circumstances, a terrible pressure was placed by the IMF on indebted countries, causing drastic reductions of social programs, privatizations, and radical adjustment policies. (To a large extent, the same situation prevails in the 2000s, as the governments of many countries are holding primary surpluses to repay their debt.) As of the second half of the 2000s, this dependency from the financing from the IMF is over. Even in the case of Brazil whose debt to the IMF culminated in 2003, these debts diminished to very small amounts.

One must, however, be aware that the debt of countries of the periphery in loans and securities (components of banks' foreign assets) to banks worldwide grew tremendously during the 2000s as shown in Figure 8.6. After a first peak during the crisis of the late 1990s (when this private debt was already much larger than the debt to the IMF), the figure shows a period of relaxation followed by a dramatic upward trend. The debt of the periphery is not a phenomenon of the past, and the IMF will probably recover some the lost grounds.