

EXAMINING THE EFFECTS OF ECONOMIC POWER ON THE PERCEPTION OF POWER  
AMONG THE BRIC COUNTRIES

By

Ryan Pont

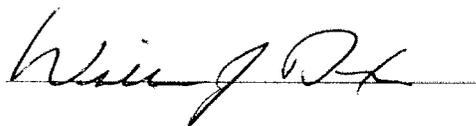
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*As globalization begins to mature, where more varied nations and economies participate in international governmental organizations such as the International Monetary Fund (IMF) and the World Trade Organization (WTO), states economic strength becomes more visible. However, in the traditional capitalist approach, economic players and nations are looking to capitalize on burgeoning markets. But how do nations and investors select up and coming nations? Where do those perceptions come into play?*

### **The BRIC Countries**

The BRIC countries consist of four emerging, developing nations. These states are: Brazil, Russia, India, and China. Their spectacular growth over the last 30 years has led them to collaborate and form the BRICS (originally BRIC until the admittance of South Africa into their ranks). Despite previous economic troubles, these nations have become the nations with the most growth.

Due to their large rise in Gross Domestic Product (GDP), Jim O'Neill, M.D. & Head of Global Economic Research at Goldman Sachs, forecasted that these four countries would rise to challenge the traditional economic powers (for the purpose of this research, these nations are defined as: the United States of America, Great Britain, Germany, Japan, and France), and upset the organization of global economic organizations and traditions. In O'Neill's paper, Building Better Global Economic BRICs, the research team at Goldman Sachs examines four different scenarios, using Purchasing Power Parity (PPP), a simple measurement of the condition in which money has the same purchasing power between countries, and come to the conclusion that the number 1 and number 2 economies of the world, the United States and Japan respectively, would experience decline in expected GDP, where as China would experience over 12% real GDP growth. This graph, taken from Building Better Global Economic BRICs, displays the ascent of the BRIC.

**Table 5: Share in World GDP (all in %)**

| Country | Current GDP |      | PPP |      | Scenarios |      |    |      |    |      |    |      |
|---------|-------------|------|-----|------|-----------|------|----|------|----|------|----|------|
|         |             |      |     |      | A         |      | B  |      | C  |      | D  |      |
| USA     | 1           | 33.1 | 1   | 24.0 | 1         | 34.2 | 1  | 32.5 | 1  | 31.5 | 1  | 26.5 |
| Japan   | 2           | 15.8 | 3   | 8.0  | 2         | 11.0 | 2  | 10.5 | 2  | 9.7  | 3  | 7.3  |
| Germany | 3           | 6.3  | 5   | 5.0  | 3         | 6.1  | 3  | 7.7  | 3  | 6.6  | 4  | 5.6  |
| UK      | 4           | 4.7  | 7   | 3.4  | 5         | 4.6  | 5  | 4.8  | 5  | 5.2  | 8  | 3.6  |
| France  | 5           | 4.3  | 6   | 3.5  | 6         | 4.2  | 4  | 5.3  | 6  | 4.5  | 6  | 3.9  |
| China   | 6           | 3.6  | 2   | 12.6 | 4         | 5.6  | 5  | 4.8  | 3  | 6.6  | 2  | 16.1 |
| Italy   | 7           | 3.6  | 8   | 3.4  | 7         | 3.5  | 7  | 4.4  | 7  | 3.8  | 7  | 3.8  |
| Canada  | 8           | 2.3  | 11  | 2.2  | 10        | 2.4  | 9  | 2.3  | 10 | 2.1  | 10 | 2.5  |
| Brazil  | 9           | 2.0  | 9   | 2.9  | 9         | 2.5  | 8  | 2.5  | 8  | 3.0  | 9  | 3.2  |
| India   | 10          | 1.6  | 4   | 5.1  | 8         | 2.6  | 10 | 1.2  | 8  | 3.0  | 5  | 5.4  |
| Russia  | 11          | 0.8  | 10  | 2.7  | 11        | 1.3  | 11 | 0.6  | 11 | 1.6  | 11 | 2.3  |

To fully examine the emerging economic power that the BRIC countries will continue to experience, we must first take a look at how they got to this point in their economic evolution.

## **Brazil**

After World War II, Brazil undertook an economic strategy called Import-Substitution Industrialization (ISI) largely due to the implementation of democracy after the overthrow of Getúlio Dornelles Vargas. In this economic strategy, a nation begins to produce simple consumer goods domestically, such as beverages or apparel. International companies already satisfied the demand for these types of products. After simple, labor intensive products were established domestically, the government would assist in the growth of more technical and skilled industries, such as automobiles, with a Big Push, where the government heavily subsidizes burgeoning investors and placing high tariffs on foreign goods. ISI boosted the economy but stagnated in the late 1960's.

However, Brazil underwent a period of intense growth at the expense of large debts. This is due to one of ISI's theoretical bases; the government needs to pay lots of money out of pocket to continue to experience growth and new industrial organization. However, Brazil experienced a crash when oil prices rose exponentially in the 1980's. After their economic collapse, Brazil underwent economic reform when Fernando Collor de Mello became the first non-military leader elected to the presidency. Facing hyperinflation and a battered public sector, Mello implemented an 18 month freeze and turned many of the public sector industries over to private owners.

In 1994, the Plano Real (The Real Plan) pegged the Brazilian real to the U.S. dollar with the effect of lowering inflation to single digits. The real was pegged to the dollar for only 5 years, but the inflation issue was dealt with. Since then, Brazil has experienced rapid growth up until the global economic recession where their GDP became stagnant.<sup>1</sup>

## **Russia**

For much of the 20<sup>th</sup> century, Russia, known as the USSR at the time, was a communist state. Post WWII, Russia emerged as the ideological, military, and economic rival of the United States. During the 1950's to the collapse of the Soviet Union in 1991, the economy was pegged to their military growth and industrialization. However, the dissolution of the USSR ushered in an area of free market capitalism, something the people and country were not familiar with. The collapse led to hyperinflation and the subsequent economic troubles.

In 1998, Russia underwent an economic collapse due to a variety of reasons. However, Russian policy artificially kept the ruble at a high exchange rate, the Russian war in Chechnya, and the Asian financial crises in 1997 led to a decrease in the quantity demanded of Russian oil and minerals, are some of the main culprits. Since the 1998 crises, which caused Russia to default on its debt, the Russian

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<sup>1</sup> (2012). *Gdp growth (annual %)*. Retrieved from The World Bank website: <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>

economy has thrived. Under Vladimir Putin, Russia experienced unbelievable growth, seeing their nominal GDP double and jumping from the 22<sup>nd</sup> largest economy to the 11<sup>th</sup> in a matter of 7 years. Under Putin, Russia has averaged nearly 7% growth in real GDP. <sup>2</sup> Since the global economic recession, which saw a GDP growth decline of nearly 8% in Russia, the Russian Federation experienced a 4% growth in 2010.

## **India**

The crown, or the United Kingdom often dictated India's economic history. However, India gained its independence on August 15, 1947, but had initial trouble managing its economy. Throughout the first years of independence, the Indian government struggled to come to a consensus on an economic strategy and often reverted to previous British plans. In 1950, India fully became a socialist country. During this time, much of India faced harsh living conditions and starvation. India continued to amass a substantial deficit.

In 1965, after tumultuous economic planning and borrowing from foreigners, India ran out of credit; no country was willing to lend India money. This led to the unpopular movement of devaluation of the rupee and liberalization of the economy. To exacerbate the issue, the Indo-Pakistani War in 1965 led Pakistani supporters such as the United States to withdraw foreign aid to India.

Since liberalization occurred, India had experienced moderate growth. However, during the late 1990's and into the early 2000's, India underwent some ambitious programs such as the Golden Quadrilateral Road Network and the universal license for telecommunications. These two projects have stimulated the economy vastly. Despite a vast lower class, India has still experienced large growth. In four of the last five years, India has seen GDP growth over 9%.<sup>3</sup>

## **China**

It is often the case that economic success is from the embrace of capitalism *and* democracy. However, China, a communist state, has experienced historic results in the last two decades, opposite of their past. When Mao Zedong became leader of the People's Republic of China, he ushered in an era of socialism. His first 5 year plan was a success but his secondary "Great Leap Forward" failed to live up to its expectations. At this time, a group opposed to Zedong challenged his socialist plan with the idea of private plots emerged. Unwilling to abdicate, Zedong began his Cultural Revolution, which bankrupted China.

After Zedong's death in 1976, Deng Xiaoping, one of Zedong's senior officials, began to privatize many of the industries and opened the market. Deng also encouraged foreign investments by establishing special economic zones. Overall, China has been the most formidable BRIC country. Its growth has been historic, regularly topping over 10% GDP growth rates for the last decade.

China, just in 2009, eclipsed Japan as the 2<sup>nd</sup> largest economy in the world. Their population, landmass, and resources, along with a developing technology

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<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

industry and a growing middle class have fueled their growth. Despite this growth, China still specializes in relatively simple manufactured goods such as apparel. Despite the global economic recession, China still averaged above 9% GDP growth.<sup>4</sup>

## Perceptions

Why do perceptions matter in economic strength? Aren't perceptions useless if we can measure economic strength through factors such as GDP? Perceptions are vital in the viewpoint of Constructivist and this paper. Constructivist theory stresses the role of identity in policy decisions in international relations. The role of identity will allow social scientists to predict the actions of states based off social identity, epistemology, and structures and agencies. The issue of perception in terms of economic strength matters because the perceptions a state has about another state in terms of economic strength will coerce leaders into decisions, whether they be to create a trade agreement or to force tariffs on goods coming from their adversary. In addition, economic perceptions matter greatly in the realm of free markets. They are often dictated by the beliefs of consumers and producers. If a consumer thinks they can expect a lower price at a later time, they will hold their money, and they same holds true for producers. John Maynard Keynes first popularized the idea of the market being flawed by human emotion stating, "Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits - a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities."<sup>5</sup> In Keynes's mind, the market was ruled by optimism and pessimism; copycats entered and exited as people believed they could make a profit.

The same theory can be applied to international relations (IR). Most theoretical frameworks of IR rely on the assumption that all leaders will act rationally. However, when economic decisions or growth are far removed from their control, leaders do not possess all the information. Leaders may choose an irrational choice because of a lack of information or may, contrary to what is assumed by the Rational Choice Theory, select an option because they, like the individual buyers and sellers in the free market, are subject to so called 'animal spirits'.

In addition, the study of perceptions in economics has multiple benefits. Firstly, we can examine the choice of leaders in the international affairs of economics. The focus on globalization and free markets can be investigated through the lens of perceptions. Secondly, the global economic recession has affected every country, some more than others. But scrutinizing perceptions allows IR theorists and students alike to view the recession as more than numbers or problems, but through human interactions (the essential function of a market; not derivatives and complex economic modeling). For example, during the late 1990's, it was hard not to find American citizens with little or no debt. The perception that carrying debt was

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<sup>4</sup> Ibid.

<sup>5</sup> Keynes, John Maynard. *The General Theory of Employment Interests and Money*. 1. New York: Harcourt, Brace and Company, 1936. Print.

fashionable or was not going to hurt them or the larger economy persisted until it reached citizens. Eventually, the perception did not forecast the reality.

From a IR prospective perceptions are vital. They effect decisions that are tangible, which of, "The most important of these for political psychology in general and psychology and IR in particular is that political attitudes and behavior can be generated and affected by needs, emotions, and images of which actors may be only dimly aware, if at all; and that such attitudes and behaviors can serve the defensive function of protecting against underlying feelings and dispositions which could be threatening, anxiety-producing, or damaging to self-esteem if they became manifest."<sup>6</sup>

However, how does one measure perceptions? It is not as easy as placing something under a microscope. The way a leader views the world can be carefully construed through policy decisions and speeches. However, on a larger scale, such as the United States' economy, perceptions will vary from individual to individual. The only effective way to measure perceptions on the economy is through polling. The use of polls is much more effective than examining a leaders decision because they directly ask an individual what they think, how they feel. There is no guesswork involved, but rather a concrete belief of how the economy's health is or the power of a country. For this reason alone, polls are the most efficacious way to measure perceptions accurately. Because markets are subject to manipulative mood swings, we can predict whether a nation will see decline or incline in their real GDP. For the BRIC case, I will utilize a blend of statistics and perceptions to analyze whether the BRIC countries will continue their rapid ascension into the economic powers, *and* attempt to change the way in which global business is done.

Another issue that perceptions create is the notion of expectations, not only from leaders and citizens but from other nations. Because, "status-based soft power provides major powers added influence and motivation to pursue policies and interests outside their immediate neighborhoods. Major power foreign policies constitute to a large extent a self-fulfilling prophecy. An expansive foreign policy is a pre-requisite for the attribution of status by the international community and by other major powers."<sup>7</sup> Once states achieve foreign power status, especially economically, it is almost impossible to retract themselves from membership in international organizations such as the WTO. In addition, their roles within international organizations are more pivotal as they are expected to take on more responsibility. New economic powers can set precedents for other rising countries, such as the BRICs determination against Europe's resolution to reduce carbon emissions at the UN Assembly in 2009.

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<sup>6</sup> Kaplowitz, Noel. "National Self-Images, Perception of Enemies, and Conflict Strategies: Psychopolitical Dimensions of International Relations." *Political Psychology*. 11.1 (1990): 39-82. Web. 24 Nov. 2012. <<http://www.jstor.org.ezproxy1.library.arizona.edu/stable/pdfplus/3791515.pdf>>.

<sup>7</sup> Volgy, Corbetta, Rhamey, Baird, Grant, Thomas, Renato, J. Patrick, Ryan, Keith. "The Two Clubs: Major Powers, Regional Powers, and Status Considerations in International Politics." n. page. Print.

## **Research Design**

I will next examine the hypothesis that the BRIC countries will continue their climb as global powers using a small dyad of years (1992 [the inception of the WTO]- 2010). My analysis of statistics will be based off data provided by the World Trade Organization, the Internet World Stats, the World Bank, the CIA World Factbook, and polls provided by Gallup. Statistics were analyzed through *Stata*.

This paper will attempt to predict whether the BRIC countries will meet their perceptions of joining the elite club of world powers or if the perceptions outlined by Jim O'Neill are incorrect.

## **Dependent Variable**

The dependent variable is economic strength. This splinters off from the perception of economic strength. Economic strength is vital in measuring a state's economic capabilities and leverage. Certainly, the BRIC countries do have some economic strength (some more than others) and measuring them will allow us to compare their relative strength with the perceptions that exist in international politics.

Economic strength will be measured through GDP, with underlying variables of Internet usage, current accounts, patent approvals, and growth of the middle class.

## **Independent Variable**

In this study, the independent variable is economic power perception. Economic strength cannot occur without the perception that one's economy is improving or more powerful than the other. In addition, the feelings for the future of one's economic strength is essential in predicting whether a state will continue to experience rapid amounts of growth or decline.

The most pertinent example of economic power perception can be seen through Russia. Post WWII, Russia was one of two poles in the bipolar world order; they controlled the east, the United States organized the west. The two nations seemed like equal adversaries, but the 1980's started to see the decline of Soviet power. They further began to engage in trade, especially agriculture, with the United States and Western Europe as their power waned. They perceived their own weakness and eventually succumbed to their own perceptions; it became their reality. This is clearly an oversimplification, but Gorbachev *believed* the U.S.S.R. could no longer compete in the world, and instituted his economic reforms.

## **Other Variables**

A country's economic strength is not simply their GDP. There are many variables that must be examined to come to conclusions and predictions. These variables will include:

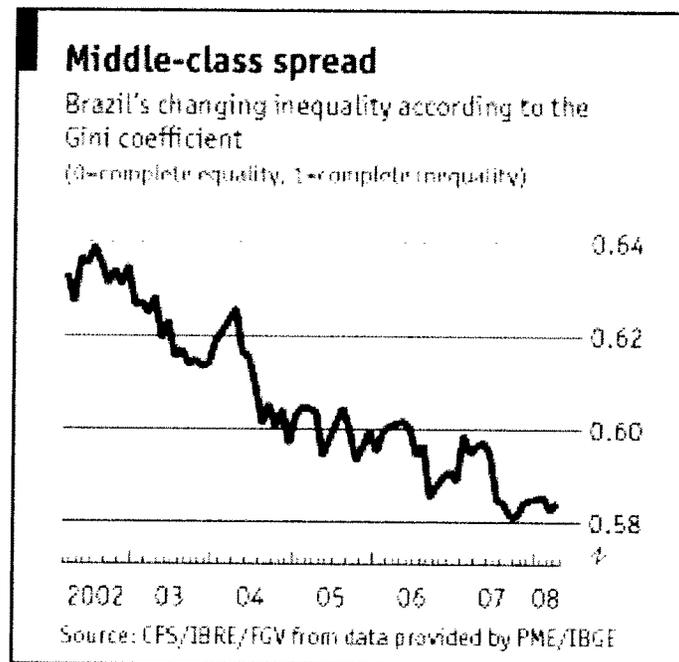
### *Middle Class (Growth or Decline)*

One of the driving forces of a stable economy is not only inflation rates, but a secure middle class that will continue to invest in its own economy through human capital, savings, which in economic terms is equal to capital investment, and labor

force growth.<sup>8</sup> The data for middle class growth shows positive growth rates for almost all of the BRIC countries' middle class.

### Brazil

According to Sao Paulo of *The Economist*, Brazil's middle class now constitutes anywhere from 48-52% of Brazil's overall population.<sup>9</sup> The middle class in Brazil still face challenges ahead as the credit market that is forming in Brazil are riskier than traditional credit, while credit has risen 20% in the country. The graph below shows the drop in inequality in Brazil, as measured by the Gini coefficient.



### Russia

Russia's middle class was hard to quantify after the fall of the Soviet Union and communism, and even more so after the 1998 financial crash in Russia. However, Russia has seen growth in its middle class up until the global economic recession of 2008. According to Ben Aris of *The Moscow Times* the middle class has dropped from "from 54 percent to 47 percent"<sup>10</sup> since the recession. In addition, Russian perception of middle class lifestyle is also in danger.

<sup>8</sup> Chun, Hasan, and Ulubasoglu, Natalie, Rana, and Mehmet. "The Role of the Middle Class in Economic Development: What Do Cross-Country Data Show?." *Asian Development Bank*. 1.245 (2011): 1-33. Web. 26 Nov. 2011. <<http://www.adb.org/Documents/Working-Papers/2011/Economics-WP245.pdf>>.

<sup>9</sup> Paulo, Sao. "Half the nation, a hundred million citizens strong." *Economist*. 11 September 2008: n. page. Web. 26 Nov. 2012. <<http://www.economist.com/node/12208726>>.

<sup>10</sup> Aris, Ben. "Russia's Middle Class Walloped by Crises." *Moscow Times* [Moscow] 28 October 2011, 4774 n. pag. Web. 26 Nov. 2012. <<http://www.themoscowtimes.com/blogs/434424/post/russias-middle-class-walloped-by-crisis/446648.html>>.

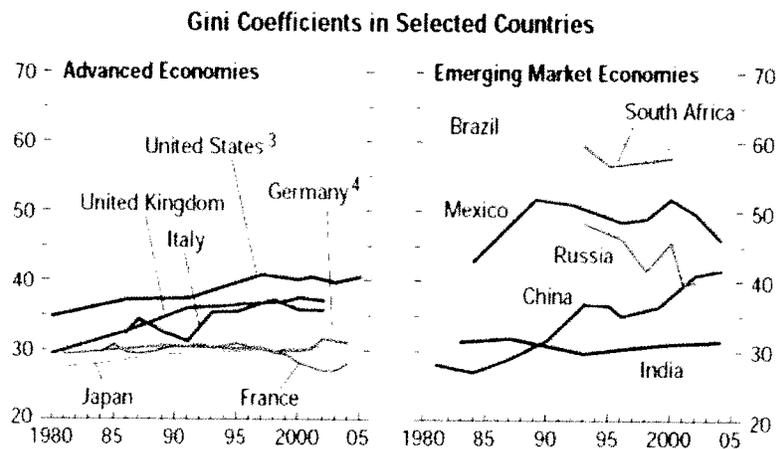
Like most countries, Russia's middle class has significantly felt an impact on their income. Because of this tangible effect, the perception of middle class Russians has turned negative, very important for the overall performance of the economy, and in Russia's circumstances, their government programs.

## India

India's growing population represents nearly 20% of the total world population. Part of that growth is fueled by their rising middle class. According to Kenneth Rapoza, Contributor covering Brazil, Russia, India, and China, the Indian middle class is, "reaching a sizeable 1.07 billion in a little under 20 years."<sup>11</sup> This large increase in the Indian middle class will continue to fuel their growing technology capabilities, specifically in computers.

## China

Despite communism, China's middle class is growing rapidly and is set to explode within a generation. Rapoza further states that, "the middle class in China will be roughly four times the size of the American middle class population, according to the UN Population Division and Goldman Sachs. By 2030, China should have approximately 1.4 billion middle class consumers compared to 365 million in the U.S. and 414 million in Western Europe."<sup>12</sup> However, China and India's rapid middle class growth will not detract from Western Europe's and American wealth.



Sources: Choi (2006), Povcal database, WIDER database, and IMF staff calculations.

<sup>1</sup>Country coverage and years shown are limited to maintain constant country coverage. See Appendix 4.1

<sup>2</sup>Excludes Hong Kong SAR due to data unavailability.

<sup>3</sup>Trends after 2000 are based on earnings data for full-time, year-round workers.

<sup>4</sup>Trends for pre-1992 are based on data for West Germany

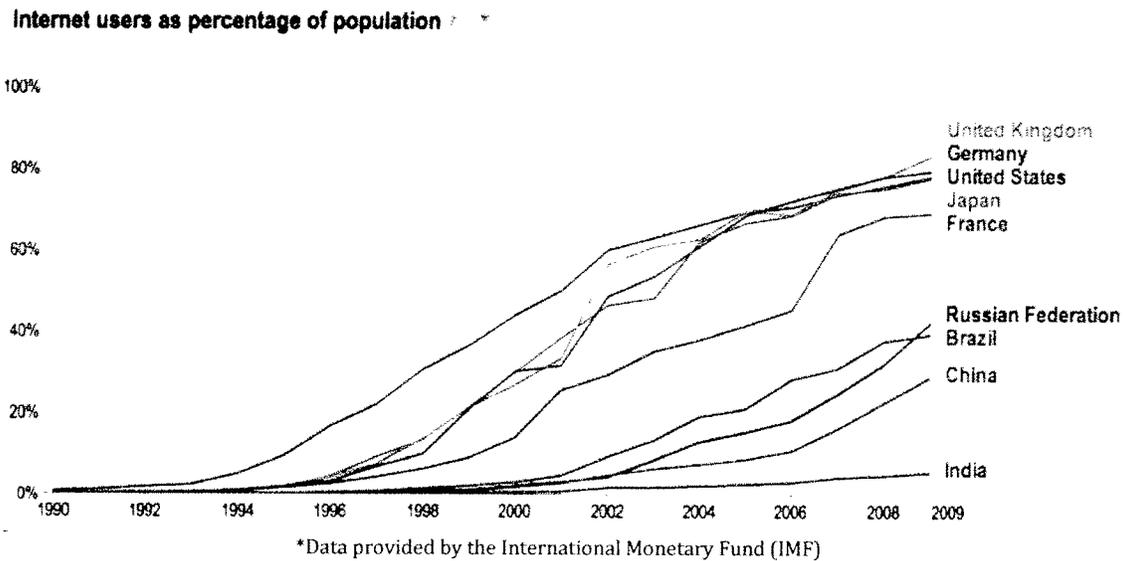
## Technology (as measured by Internet usage)

<sup>11</sup> Rapoza, Kenneth. "Within A Generation, China Middle Class Four Times Larger Than America's." *Forbes*. 05 September 2011: n. page. Web. 26 Nov. 2012. <<http://www.forbes.com/sites/kenrapoza/2011/09/05/within-a-generation-china-middle-class-four-times-larger-than-americas/>>.

<sup>12</sup> Ibid.

Technology is vital to a growing economy. Consumer goods and technological advances fuel innovation and consumer spending. One such measure to accurately gauge technology is internet usage. As a disclaimer, China censors its internet, so any such measurement is not complete.

Below is a graph displaying internet usage by the five defined traditional economic powers and the BRIC countries:



As displayed above, Russia has seen the most expansive use of the internet, then Brazil, followed by China, and a lagging India. However, all the BRIC countries do not come anywhere near the developed countries in internet usage (the closest being Russia at 41% and France at 68%).

### *Innovation (as measured by patents)*

Innovation, or the introduction of new products into the marketplace, is vital in economic growth and technological advancement. The Leontief input-output flow matrix, explains that:

$$\begin{array}{rcc}
 & \text{Flow to} & \\
 & \text{---} & \text{---} \\
 & \text{M} & \text{S} & \text{Investment} \\
 \text{Flow from} & \text{M} & B_{MM} + B_{MS} & = & I_M \\
 & \text{S} & B_{SM} + B_{SS} & = & I_S
 \end{array}$$

The row sum is the total investment of goods and services produced by each sector. The column sum (not shown) is the total investment of goods and services within each sector.

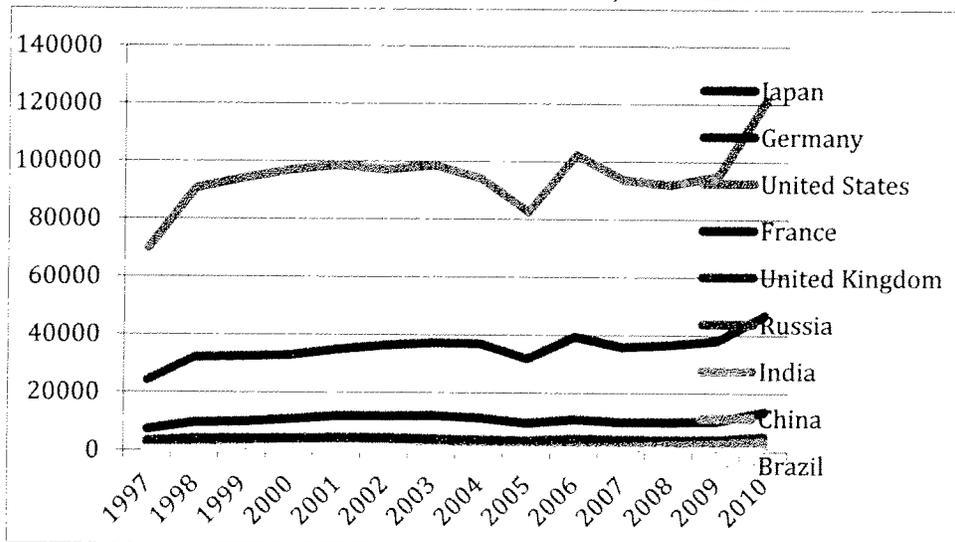
### Flows of Innovation Round the Economy

Every process innovation within a sector causes lower costs of inputs supplied to user firms. Every product innovation within a sector causes new product varieties of inputs for user firms. These can lead to new processes of production in the user industry, due either to new intermediate products A, to new investment products B, or to cost changes that make different techniques more profitable.

*\*Information Provided from Innovation, Intellectual Property, and Economic Growth<sup>13</sup>*

In addition, innovation breeds competition, one of the key factors of a free market. Despite China's communist regime, all of the BRIC countries have embraced capitalism and seem to be thriving at it. However, a soluble measurement of innovation is needed. The measurement this paper will use is patents awarded. Although each nation has their own patent process and laws, patents awarded are an effective measurement for innovation. New technologies must be registered in each nation before it can be sold publicly. Therefore, patents are the only way to measure innovation. Below is a graph displaying patents awarded from 1997-2010 by each nation.

*Patents Awarded, 1997-2010*



*\*Data provided by the U.S. Patent and Trademark Office<sup>14</sup>*

<sup>13</sup> Greenhalgh and Rogers, Christine and Mark. *Innovation, Intellectual Property, and Economic Growth*. 1st. Princeton: Princeton University Press, 2010. Web. <<http://press.princeton.edu/chapters/s9221.pdf>>.

<sup>14</sup> United States of America. U.S. Patent and Trademark Office. *Patents By Country, State, and Year - All Patent Types (December 2010)*. Alexandria: United States Federal Government, 2010. Web. <[http://www.uspto.gov/web/offices/ac/ido/oeip/taf/cst\\_all.htm](http://www.uspto.gov/web/offices/ac/ido/oeip/taf/cst_all.htm)>.

As indicated from the data below, the BRIC countries do not compare very well with the rest of the developed economic powers. Pre 1997 results show that China leads the pack of BRIC countries awarding 12,794 patents, granting 3,303 in their highest year (2010). The worst BRIC performer in patents was Brazil who handed out 2,577 total patents, topping out at 219 in 2010. In the middle were India and Russia who handed out totals of 5,939 and 2,947 respectively.

These numbers are compared to the developed powers who handed out 803,773 (Japan), 285,667 (Germany), 2,312,272 (United States), 108,302 (France), and 108,676 (United Kingdom). Clearly, the majority of innovation is still done in the traditional economic powers.

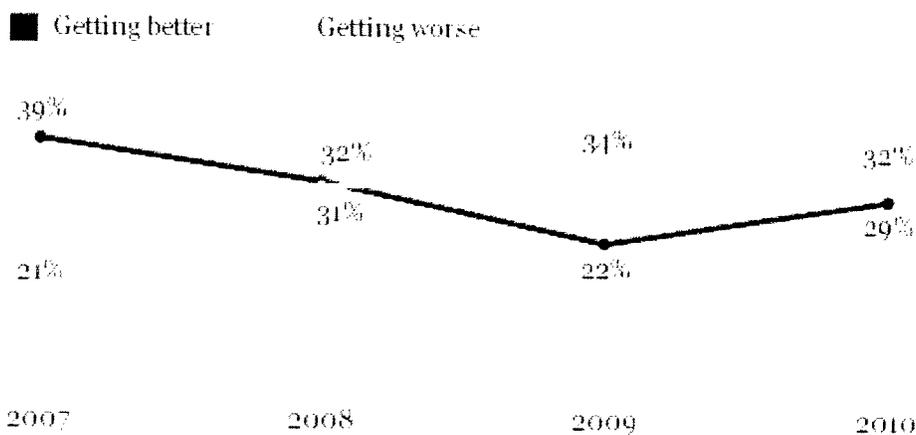
## Perceptions

### *Polling*

To measure perceptions, this paper will use Gallup polls and WTO disputes to judge the economic perceptions that exist. The Gallup polls display pessimism in the traditional economic powers (U.S., U.K., France, Japan, and Germany) markets. The first graph below shows European opinion of living standard conducted at the end of 2010. Since then, many nations in the European Union face difficult economic decisions and political upheavals. Although there is a lag in time, one can safely assume that the numbers did not go up, but rather fell upon news of the possibility of bankruptcy of Spain, Greece, Ireland, and a few others.

*Right now, do you feel your standard of living is getting better or getting worse?*

EU median



GALLUP

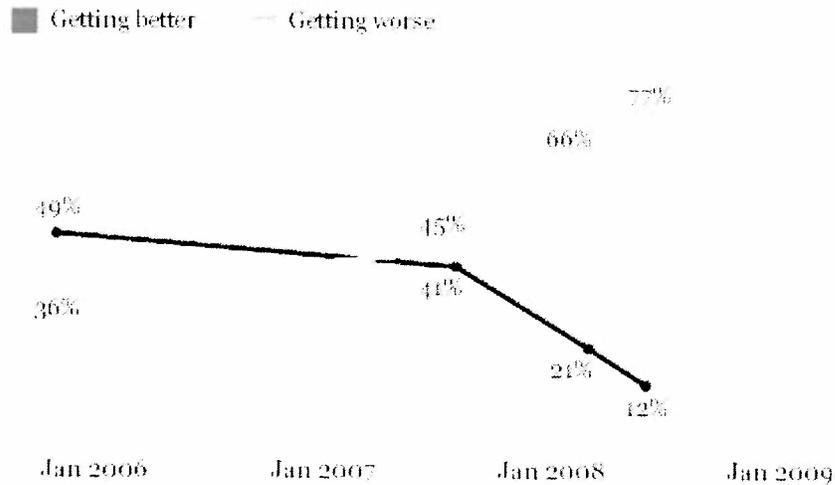
\* Data Provide by Gallup<sup>15</sup>

<sup>15</sup> Manchin, Anna. "Europeans Gain Optimism About Their Financial Situations." *Gallup.com*. Gallup, 30 Dec 2010. Web. 26 Nov 2012. <<http://www.gallup.com/poll/145421/Europeans-Gain-Optimism-Financial-Situations.asp&xgt;>>.

In a poll conducted at the beginning of the global economic recession in 2008, Japanese individuals were asked to opine about the state of the economy. The results show extreme pessimism. Since then, Japan was pummeled by a devastating hurricane and the meltdown of the Fukushima Daiichi Nuclear Power Plant in the summer of 2011, resulting in massive government spending to stabilize the situation.

*Right now, do you think the economic conditions in Japan, as a whole, are getting better or getting worse?*

Asked of Japanese adults

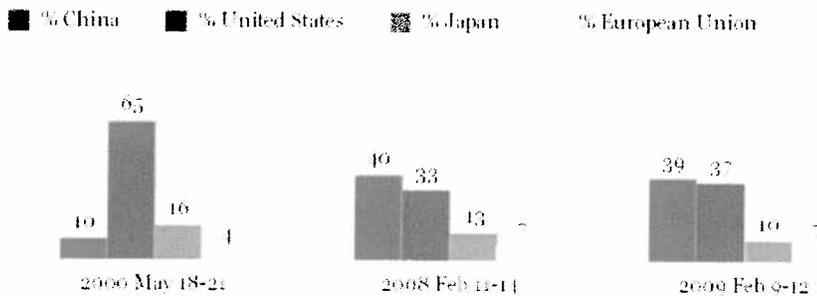


GALLUP

\*Data Provided by Gallup Polls<sup>16</sup>

American perceptions are just as bad as Europeans and Japanese. In a Gallup Poll conducted among U.S. citizens, Americans were asked to identify which nation is the global economic leader. Most identified China.

*Which one of the following do you think is the leading economic power in the world today -- [The United States, The European Union, Russia, China, Japan, India]?*



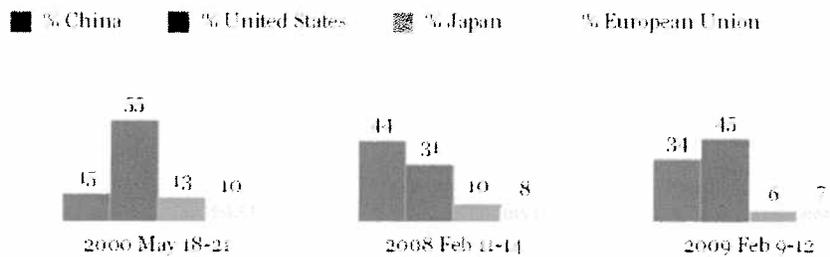
None of the countries named here are than 2% of respondents in any year

<sup>16</sup> Ray, Julie. "Japanese Consumer Confidence Crumbling." *Gallup.com*. Gallup, 17 Sep 2008. Web. 26 Nov 2011. <<http://www.gallup.com/poll/110431/Japanese-Consumer-Confidence-Crumbling.aspx>&xt;

\*Data Provided by Gallup Polls<sup>17</sup>

However, when asked which country would be the economic leader for the next 20 years, Americans were much more optimistic, citing the United States 45% of the time, while China received 34% of the vote.

*Looking ahead 20 years, which one of the following countries do you expect to be the world's leading economic power at that time -- [The United States, The European Union, Russia, China, Japan, India]?*



No other country named by more than 1% of respondents in any year

GALLUP

The perception of American economic dominance seems to still be prevalent among Americans. Over the last half century, the perception has been the reality for Americans. However, European consumers pessimism coupled with falling population growth patterns, may signal a fall in their traditional world ranking. Japan, having been jumped by China for the number two spot in GDP this year, certainly holds a negative attitude about their future economic performance.

### *State Perceptions WTO*

In addition to individual citizens' views of their nations economy, are the leader's perceptions of their own state strength, economy, future expectations, and the system structure. All of these perceptions are linked to their own personal views and their continual political elections to stay in power.

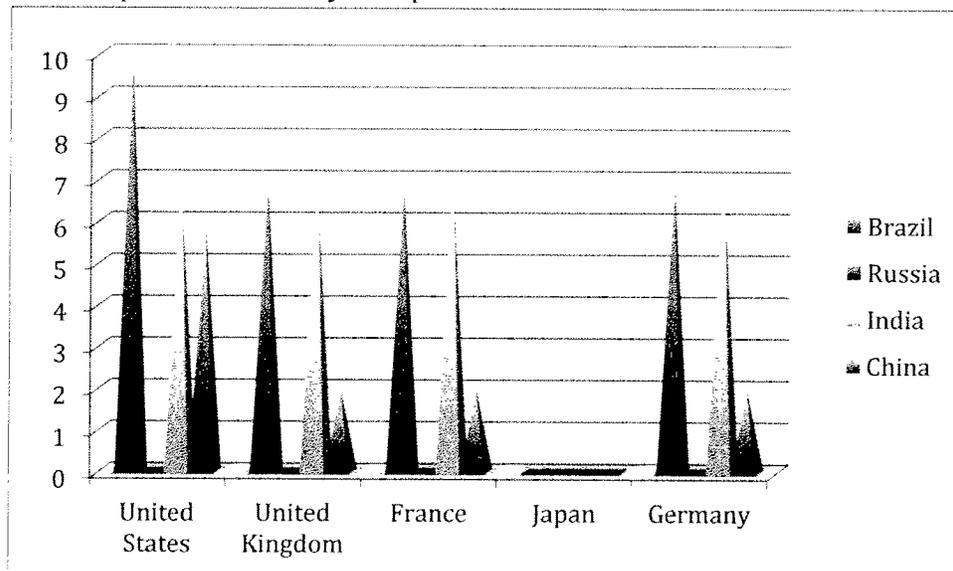
One way to measure the perceptions of leaders of the economic system is through the World Trade Organization (WTO). The WTO is a 153-member organization that collaborates to formulate rules, regulations, and agreements of international trade between its member states. The WTO, unlike other international organizations, grant each member state equal say in discussions. In addition, states

<sup>17</sup> Saad, Lydia. "U.S. Surpasses China in Forecast for Economic Powerhouse." *Gallup.com*. Gallup Polls, 16 Feb 2009. Web. 26 Nov 2012. <<http://www.gallup.com/poll/114658/surpasses-china-forecast-economic-powerhouse.asp&xt;>>.

can file grievances against another member through the WTO and undergo the dispute resolution process.

Therefore, this paper will use WTO disputes to measure the perceptions of leaders, and their interpretation of the current economic system that has been set up by the previous, traditional economic powers. The graph below displays open disputes between the BRIC countries and the United States, United Kingdom, France, Germany, and Japan. Russia is not a member of the WTO due to Georgia's, the nation that borders Russia to the southwest, refusal to allow admittance.

*WTO Disputes as Primary Complainant*



\*Data Provided by WTO<sup>18</sup>

The graph depicted shows that the United States has the most complaints against them. This is to be expected as the United States is and has been the leader of world economics since the end of WWII. Surprisingly, Japan has no primary complaints against them.

### **Gross Domestic Product (GDP)**

The most effective way to accurately measure a country's economic performance is through Gross Domestic Product (GDP), which is "the gross national product excluding the value of net income earned abroad."<sup>19</sup> Essentially, GDP measures a nation's output. If we examine GDP growth since 1992, with a lag accounting for the previous years' GDP, and run a R<sup>2</sup> Regression test with Economic perception and the results are thus:

<sup>18</sup> World Trade Organization. Dispute Settlement. *Disputes by country/territory*. Geneva: WTO, 2012. Web. <[http://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_by\\_country\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm)>.

<sup>19</sup> Merriam-Webster's Collegiate Dictionary. 10th. Springfield: An Encyclopedia Britannica Company, 2001. 513. Print.

regress GDP GDPT Economic

| Source      | SS         | df  | MS         | Number of obs = | 169      |
|-------------|------------|-----|------------|-----------------|----------|
| -----+----- |            |     |            | F( 2, 166) =    | 415.96   |
| Model       | 1.3316e+09 | 2   | 665809743  | Prob > F        | = 0.0000 |
| Residual    | 265711929  | 166 | 1600674.27 | R-squared       | = 0.8337 |
| -----+----- |            |     |            | Adj R-squared = | 0.8316   |
| Total       | 1.5973e+09 | 168 | 9507925.09 | Root MSE        | = 1265.2 |

| GDP           | Coef.     | Std. Err. | t     | P> t  | [95% Conf. Interval] |
|---------------|-----------|-----------|-------|-------|----------------------|
| -----+-----   |           |           |       |       |                      |
| GDPT          | .931477   | .0323782  | 28.77 | 0.000 | .8675508 .9954031    |
| EconomicPer~n | -118.0345 | 98.83211  | -1.19 | 0.234 | -313.1645 77.09543   |
| _cons         | 278.2436  | 133.2102  | 2.09  | 0.038 | 15.239 541.2482      |

As evidence from the regression test, one can observe that last years' GDP, GDPT, and economic perceptions explain nearly 84% of economic performance in terms of GDP. However, upon further observation, economic perceptions do not explain GDP, as evidence by the R<sup>2</sup> Regression test performed between GDP and economic perceptions:

regress GDP Economic

| Source      | SS         | df  | MS         | Number of obs = | 170      |
|-------------|------------|-----|------------|-----------------|----------|
| -----+----- |            |     |            | F( 1, 168) =    | 0.73     |
| Model       | 6899061.62 | 1   | 6899061.62 | Prob > F        | = 0.3945 |
| Residual    | 1.5905e+09 | 168 | 9467220.14 | R-squared       | = 0.0043 |
| -----+----- |            |     |            | Adj R-squared = | -0.0016  |
| Total       | 1.5974e+09 | 169 | 9452023.94 | Root MSE        | = 3076.9 |

| GDP           | Coef.     | Std. Err. | t     | P> t  | [95% Conf. Interval] |
|---------------|-----------|-----------|-------|-------|----------------------|
| -----+-----   |           |           |       |       |                      |
| EconomicPer~n | -204.6635 | 239.7489  | -0.85 | 0.395 | -677.9723 268.6453   |
| _cons         | 2848.775  | 239.7489  | 11.88 | 0.000 | 2375.466 3322.084    |

## Conclusion

After inspecting the effect of economic perceptions upon economic performance (GDP), my hypothesis was incorrect. Economic perceptions only

explain .43% of economic performance. Constructivist views of economics could still play a role in explaining GDP. Other variables such as trade, current accounts, and natural resources, in addition with economic perceptions, may fully explain GDP.

Although perceptions seem to play little role in overall economic performance of a nation, Constructivist views still can explain why perceptions are key in decision-making processes. Their emphasis on individuals and their decision-making are vital to how the world operates. The dyad between personal choices and economic evaluation are still inherent in basic economic theory, stressed by Keynes' 'animal spirits'. Consumers and producers feel the pressure of their own perceptions on a daily basis. Unfortunately, this paper was unable to capture the parsimonious theory presented by Keynes; and was further unable to explain Jim O'Neill's, of Goldman Sachs, economic forecast for the BRIC countries.