The Impact of the "BRIC Thesis" and the Rise of Emerging Economies on Global Competitive Advantage: Will There Be a Shift from West to East?

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The paper examines the thesis that by mid-21st century BRIC economies of Brazil, Russia, India and China (the "East") would be wealthier than today's seven largest developed economies of the G7 (the "West"). After analyzing the thesis, the study proposes the following. First, economic power is likely to shift from West to East because the combined GDP of the BRICs would be larger than that of the G7. Second, competitive advantage is less likely to shift from West to East, as after reaching G7's income levels, BRIC economies would simply at best become as competitive as G7 economies.

INTRODUCTION

Over the last ten years, developed countries have grown very little. Comparatively however, several developing economies have expanded at unprecedented rates. As developing countries' share of the world economic output has been rapidly rising, economists have started to predict that in the next few decades, global competitive advantage will likely shift from West to East. In the context of this prediction, West refers to the United States, Canada, most of Europe, and developed countries of Asia (primarily Japan). On the other hand, East involves a few developing countries of Asia, Latin America and Eastern Europe. The shift in global competitive advantage is a proposition advanced by organizations such as the Brookings Institution (Kharas, 2010; Lieberthal, 2010), Morgan Stanley (Morgan Stanley Capital International, 2011), the Financial Times (Pilling, November 22, 2010), and Investopedia (2011). Of a particular significance is the "BRIC thesis" formulated by Goldman Sachs' economists (O'Neill, 2001, July 2011; O'Neill & Stupnytska, 2009; Wilson & Purushothaman, 2003; Wilson, Kelston, & Ahmed, 2010). BRIC is an acronym for four largest developing economies of Brazil, Russia, India, and China. The thesis advances that by 2032, the combined GDP of BRIC economies would be as large as that of G7. G7 are seven biggest developed economies (the United States, Japan, Germany, France, the United Kingdom, Italy and Canada). The thesis also suggests that by 2050 BRIC countries would be wealthier than most of current developed countries. The purpose of this research is to study the impact of the growing economic power of developing countries, especially BRIC nations, on the ability of developed countries and their companies to sustain their current competitive edge. In particular, the paper will examine the proposition that competitive advantage is in the process of shifting from West to East.

GLOBAL ECONOMIC ENVIRONMENT

World economies can be divided into two broad categories, developed countries and developing countries (World Bank, 2011). Developed countries are high income economies with a per capita income of US$12,275 or more, and developing countries are low to middle income economies with a per capita income of US$12,274 or less. Increasingly, institutions such as the International Monetary Fund (IMF) refer to developed and developing countries as advanced and emerging economies. For practical purposes, this paper will use developed and developing countries. Later the term emerging economies (as opposed to advanced economies) will be introduced and briefly discussed.

TABLE 1
GDP FOR MAJOR DEVELOPED AND DEVELOPING COUNTRIES

Countries	1980		1990		2000		2010	
	US$ (Billions)	%	US$ (Billions)	%	US$ (Billions)	%	US$ (Billions)	%
Developed:	**8,163**	**76.0**	**17,669**	**80.0**	**25,694**	**80.0**	**41,531**	**66.0**
United States	2,788	26.0	5,801	26.2	9,951	30.9	14,658	23.3
Japan	1,071	10.0	3,058	13.8	4,667	14.5	5,459	8.7
Germany	826	7.7	1,547	7.0	1,906	5.9	3,316	5.2
France	691	6.5	1,249	5.6	1,333	4.2	2,583	4.1
Others	2,787	25.8	6,014	27.4	7,837	24.5	15,515	24.7
Developing:	**2,544**	**24.0**	**4,511**	**20.0**	**6,533**	**20.0**	**21,378**	**34.0**
China	202	1.9	390	1.8	1,198	3.7	5,878	9.3
Brazil	163	1.5	508	2.3	642	2.0	2,090	3.3
India	182	1.7	326	1.5	480	1.4	1,538	2.4
Russia	N/A	N/A	N/A	N/A	260	0.8	1,465	2.3
Others	1,997	18.9	3,287	14.4	3,953	12.1	10,407	16.7
Total World	**10,707**	**100.0**	**22,180**	**100.0**	**32,227**	**100.0**	**62,909**	**100.0**

Source: Data retrieved from the International Monetary Fund online database (April 2011)

In 2000, most economic activities originated in developed countries (Table 1). The GDP of developed countries represented 80% of global output. With close to one-third (30.9%) of world GDP, the U.S. was by far the largest economy in the world. The other developed countries that accounted for a significant share of world economy in 2000 were Japan (14.5%), Germany (5.9%), and France (4.2%).

Not surprisingly, companies from these countries also dominated the competitive arena in 2000. Based on Global Fortune 500 (see Table 2), 95.4% (477 companies) of the largest and arguably most competitive companies were from developed countries. The US was home to more than one-third (37%) of those companies. Japan, France and Germany followed with respectively 20.8%, 7.4%, and 6.8%.

As companies grew through diversification strategies (either industry and/or international diversification), competition intensified in most industries (Chandler, 1990). Firms that had achieved powerful advantages in their industry used their organizational capabilities to compete in other industries (inter-industry competition). In an effort to sustain their existing competitive strength in the long term, companies from developed countries also expanded their activities in various regions around the world (international competition). Regional diversification helped major Western companies to take advantage of national differences in cost and quality of factors of production (e.g. labor, energy, land, and capital). For Hill (2009), massive investments in global markets, especially in developing countries of Asia and Latin America, contributed to lowering overall cost structure and/or improving the quality or functionality of product offerings.

TABLE 2
GLOBAL FORTUNE 500 FOR MAJOR COUNTRIES

Countries	2000		2005		2010	
	# firms	%	# firms	%	# firms	%
Developed:	**477**	**95.4**	**455**	**91.0**	**425**	**85.0**
United States	185	37.0	170	34.0	136	27.2
Japan	104	20.8	70	14.0	71	14.2
France	37	7.4	38	7.6	39	7.8
Germany	34	6.8	35	7.0	37	7.4
Others	117	23.4	142	28.4	142	28.4
Developing:	**23**	**4.6**	**45**	**9.0**	**75**	**15.0**
Brazil	3	0.6	4	0.8	7	1.4
Russia	2	0.4	5	1.0	6	1.2
India	1	0.2	6	1.2	8	1.6
China	12	2.4	20	4.0	46	9.2
Others	5	1.0	10	2.0	8	1.6
Total World	**500**	**100.0**	**500**	**100.0**	**500**	**100.0**

Source: Data retrieved from CNNMoney (2011)

TABLE 3
LOCATION OF GLOBAL PRODUCTION FOR LEADING AUTOMAKERS

Companies	2000			2009		
	Location	Units (000)	%	Location	Units (000)	%
Toyota	Japan	4,151	70	Japan	3,543	49
	US/Canada	1,103	19	US/Canada	1,190	17
	European Union	178	3	Indonesia/Thai	721	10
	Indonesia/Thai	169	2	China	601	8
	Others	354	6	Others	1179	16
	Total	**5,955**	**100**	**Total**	**7,234**	**100**
General Motors	US/Canada	5,186	64	China	1,769	27
	European Union	1,955	24	US/Canada	1,540	24
	Brazil/Mexico	778	9	European Union	1,138	18
	Australia	133	2	Brazil/Mexico	950	15
	Others	81	1	Others	1062	16
	Total	**8,133**	**100**	**Total**	**6,459**	**100**
Volkswagen	European Union	3,769	74	European Union	3,612	60
	Brazil/Mexico	935	18	China	1,244	20
	China	316	6	Brazil/Mexico	1,100	18
	Others	87	2	Others	111	2
	Total	**5,107**	**100**	**Total**	**6,067**	**100**
Ford	US/Canada	4,430	60	US/Canada	1,629	35
	European Union	2,249	31	European Union	1,660	35
	Brazil/Mexico	385	5	Brazil/Mexico	579	12
	China	27	0	China	446	10
	Others	232	4	Others	371	8
	Total	**7,323**	**100**	**Total**	**4,685**	**100**

Source: Data retrieved from the OICA online database (2011).

Foreign direct investments allowed global companies such as Coca Cola, McDonald's, General Motors, Sony, Siemens, and many more, to become well recognized names throughout the world. The automobile industry is an example of how global companies have been redirecting their investments away from developed countries toward developing nations.

In 2000, leading automakers were performing well over half of their production activities in their home countries. Toyota, General Motors and Ford made respectively 70%, 64% and 60% of their vehicles in their domestic markets (Table 3). Volkswagen (VW) produced 74% of its automobiles in the European Union. Also, most of their remaining operations were located in other developed countries. By 2009 however, domestic production for Toyota, General Motors and Ford dropped below 50%. Although the percentage of VW's production in the European Union was still above 50%, it declined from 74% in 2000 down to 60% in 2009.

As developing countries attracted more foreign direct investments, major automobile companies gradually shifted an increasing share of their production to these nations. In 2009 for example, General Motors had moved a sizable portion of its activities out of North America to China. Of the 8.1 million vehicles that the company produced in 2000, 5.2 million (64%) were made in North America, and only 30,000 (nearly 0%) in China. But in 2009, China had become the single most important location for General Motors' activities. In that year, General Motors made more automobiles in China (1.8 million or 27% of its production) than in the United States and Canada combined (1.5 million). The situation was not much different for the other leading vehicle manufacturers.

RISING GLOBAL COMPETITIVE ADVANTAGE OF BRIC COUNTRIES

The shift in foreign direct investments toward developing countries occurred, not only in the automobile industry, but also in many other sectors. Although developed countries were still the main destination for foreign direct investments, developing nations have been attracting a growing portion of these investments (Hill, 2009). Western companies were increasingly locating their operations in developing countries of Asia (particularly China and India), Latin America (for example Brazil), and to some extent, Eastern Europe (e.g. Russia).

Though necessary for Western companies to sustain their global competitive advantage in the long term, geographic diversification of investments also had undesirable consequences. It led to a transfer of managerial and technological know-how to these countries. To effectively operate in foreign countries, multinational firms needed to hire locals who were, over time, able to master technical and organizational skills. Subsequently, some developing economies saw an increase in the pool of highly qualified workforce that could contribute to the start of local businesses. At the same time, the superiority of the West came to be perceived as a benchmark and therefore a target to emulate. As democratic systems and free market mechanisms were key characteristics of most developed countries, several developing countries carried out political and/or economic reforms, in the hope to facilitate the emergence of their economies and companies. Massive investments in developing countries, coupled with both the transfer of managerial and technological capabilities, and the transformation of political and economic systems, laid the ground for the rise of new economic powers, primarily the BRICs.

During the first decade of the twenty-first century, the size of BRICs as well as that of some other developing economies grew so rapidly that the global economic and competitive environment began to drastically change. In 2010, the United States was still the largest economy in the world. However, one by one, the other developed countries were surpassed by China, and the remaining BRICs (Brazil, Russia and India) were quickly closing the gap. As can be seen in Table 1, in only ten years, the share of global GDP from developing economies has gone from 20% in 2000 to 34% in 2010. A closer look at China can better highlight the emergence of BRICs and other developing countries. In 1990, China, then a minor player on the global economic scene, accounted for a mere 1.8% of world output. Its share increased to 3.7% in 2000 and to an astonishing 9.3% in 2010, making China the second largest economy in the world, ahead of economic giants such as France, Germany, and Japan.

The economic emergence of developing countries can further be noticed in the standing of these countries' firms among the largest companies in the world. As discussed earlier, companies from developed countries accounted for 95.4% (477) of the largest 500 companies in Global Fortune 500 in 2000 (see Table 2). In 2010 however, their share went down to 85%, a 10% decline in just ten years. During the same period, the percentage of companies from developing countries more than tripled. From only 4.6% (23 companies) in 2000, their share increased to 15% (75 firms) in 2010. It is worth noting that BRICs were home to most companies from developing countries. The number of companies from BRICs on Global Fortune 500 was 67 (13.4%) in 2010, up from 18 companies (3.6%) in 2000. Over two third (46 firms) of BRIC companies were from China.

To reflect the new and significantly changed global marketplace, the terminology used in the classification of world economies has been evolving. Rapidly rising developing countries (with BRICs in the lead) came to be known as "emerging economies". Currently, the International Monetary Fund (2011) groups world economies into two categories, advanced economies (developed and high income countries), and emerging and developing economies (low to middle income countries). Recently, Goldman Sachs Asset Management has proposed the term "growth markets" (O'Neill, April 2011). According to O'Neill, to describe the countries that are driving most of the positive momentum behind the world economy as emerging economies is no longer appropriate. Growth markets would be countries outside the developed world with a growth rate well above the world average. These economies include BRICs, as well as such developing nations as Mexico, Indonesia and Turkey.

The emergence of BRICs and other developing countries raises questions about how the global marketplace would look like in the next several decades. The first decade of the twenty-first century however offers some early indications. During the last ten years (2000-2010), BRICs have made their mark on the global economy by contributing to over a third of world GDP growth (Wilson, Kelston & Ahmed, 2010). Perhaps the sectors that best illustrate the rapid growth of developing nations are energy consumption and automobile production. According to a team of economists at BP (BP Statistical Review of World Energy, 2011), global energy consumption rebounded strongly and grew by an average of 5.6% in 2010, the highest increase in percentage since 1973. While energy demand from advanced economies grew by 3.5%, it increased by 7.5% in developing regions, especially in BRICs. With an expansion of 11.2% in 2010, China has become the globe's largest energy consumer, a position the United States held from the early 1900s until 2009 (Barr, 2011; Swartz & Oster, 2010). In 2010, the Chinese share of global energy consumption reached 20.3%, against 19% for the United States. Looking ahead, the International Energy Agency (2011) estimated that developing economies would account for 93% of projected increase in global energy demand, as the economic activity of these nations will grow at much faster rates.

Besides the energy sector, the global automobile production also exemplifies how developing economies are gaining economic ground. Table 3 above showed that automakers had been shifting their production facilities from developed economies to developing countries of Asia and Latin America.

As a consequence of the new trend in foreign direct investments, developing nations have gradually emerged as major motor vehicle manufacturing nations. In 2000, only one BRIC country, China, and another developing economy, Mexico, were among the top ten manufacturers of automobiles (Table 4). Ten years later, in 2010, three of four BRICs (Brazil, India, and China), and Mexico, were on the list of the top ten. Remarkably, China moved from being number 8 in 2000 (when it accounted for 3.5% of world production) to becoming by far the biggest automobile producing country in the world. In 2010, close to one quarter (23.5%) of all motor vehicles were made in China. Japan, the second largest producing country, manufactured a little over half of China's level. Clearly developed economies have been losing their dominance in the automobile industry.

TABLE 4
TOP TEN AUTOMOBILE PRODUCING COUNTRIES

2000			2010		
Countries	Units (000)	%	Countries	Units (000)	%
1. United States	12,800	21.9	1. China	18,265	23.5
2. Japan	10,141	17.4	2. Japan	9,626	12.4
3. Germany	5,527	9.5	3. United States	7,761	10.0
4. France	3,348	5.7	4. Germany	5,906	7.6
5. South Korea	3,115	5.3	5. South Korea	4,272	5.5
6. Spain	3,033	5.2	6. Brazil	3,648	4.7
7. Canada	2,962	5.1	7. India	3,537	4.5
8. China	2,069	3.5	8. Spain	2,388	3.1
9. Mexico	1,936	3.3	9. Mexico	2,345	3.0
10. UK	1,814	3.1	10. France	2,228	2.9
Others	11,629	20.0	Others	17,882	23.0
Total	**58,374**	**100.0**	**Total**	**77,858**	**100.0**

Source: Data retrieved from the OICA online database (2011)

The production of automobiles was among the factors contributing to increased energy consumption in developing countries. Both automobile production and high energy consumption were signs of a rapidly growing demand for goods and services from the middle class in developing economies. The emergence of a sizable middle class in developing countries was a significant development, because the middle class has been seen as having attributes that result in increased consumption (e.g. Murphy, Schleifer, & Vishny, 1989; Schor, 1999). Specifically, in addition to a constant and upscaling of lifestyle norms, the middle class is characterized by the pervasiveness of conspicuous and status goods, and by its willingness to pay a little extra for quality. In Murphy et al.'s view, these characteristics constitute a force that drives economic growth since they feed investment in innovation, production and marketing. The fact that the United States had the largest middle class throughout the twentieth century led Kharas (2010) to suggest that the global economy relied on US consumption for its growth. Recently, the middle class in BRICs and a few other developing nations has been rising quickly (Kharas, 2010; Wilson, Kelston & Ahmed, 2010). There were for example 150 million middle class consumers in China in 2010, and by 2021, this number is predicted to top 670 million (Kharas, 2010). Kharas also estimated that by 2015 the size of middle class consumers in Asia will probably equal that of North America and Europe combined.

The changes in the energy and the automobile sectors, along with the growing middle class in developing nations, may be indicative of broader economic shifts that the global competitive environment is likely to go through in the future. Recently, phrases such as 'the BRIC decade' (Wilson, Kelston, & Ahmed, May 2010) or 'a cross-over from West to East' (Kharas, 2010) have been used by economists to highlight the changes that are increasingly taking place in the global economic environment. The Wall Street Journal (WSJ) for example suggested that China could surpass the United States as the main driver of the global economy in 2012 (WSJ, November 10, 2010). O'Neill (2011) predicted that by 2020, BRICs would be responsible for close to 50% of the increase in global GDP. In a 2003 report, economists from Goldman Sachs advanced the proposition that by 2050, BRIC economies would be wealthier than most of today's developed countries. They called this proposition the "BRIC thesis" (Wilson & Purushothaman, 2003).

DOES THE BRIC THESIS MAKE SENSE?

It is still possible that brain drain and entrepreneurship could help to revitalize businesses in developed economies. Also, one may conceive of systemic problems that may slow down BRICs' rapid growth. Assuming that BRICs will progress the way they do now, in the long term, the standing of current

developed countries is likely to be threatened by two factors. The first factor is the size and quality of developing countries' population. Based on estimates from the International Monetary Fund (IMF, 2011), there were 6.8 billion people in the world in 2009. About 80% of them were from developing countries, with nearly 42% living in BRICs. China, the most populous country, had more than 1.3 billion people. The other BRICs, India, Brazil and Russia had respectively 1.2 billion, 193 million, and 140 million. In addition to population size, developing nations have improved the quality of their education system, as illustrated by the results of a 2009 exam given by PISA (Program for International Student Assessment). The exam was taken by some 470,000 students in 65 countries. Scores from the PISA test showed not only that the students from a number of developing nations performed very well, but also that educational attainments in countries such as China were higher than those of wealthy nations like the United States (Armario, 2010). Because of their large population, and the growing number of highly skilled workers, BRIC countries may forge ahead as far as the size of their GDP.

The second factor is economic convergence. According to the convergence theory, in any long period, the gap in per capita income levels across countries tends to close. The basis for economic convergence is the catch-up hypothesis, which asserts that being backward carries a potential for rapid advance (Abramovitz, 1986). Rapid advance occurs because high income countries' superiority in technology provides poor countries with a target to emulate, thus an opportunity for rapid growth. The larger the technological gap between high and low income countries, the stronger the low income countries' potential for high growth in productivity.

TABLE 5
PER CAPITA INCOME FOR MAJOR COUNTRIES (IN US$)

Countries	1980	1990	2000	2010
Developed economies:				
United States	12,249	23,198	35,252	47,284
Japan	9,172	24,774	36,800	42,820
Germany	10,759	19,610	23,220	40,631
France	12,865	22,017	22,574	41,019
Developing economies:				
China	205	341	946	4,382
Brazil	1,372	3,464	3,751	10,816
India	263	378	460	1,265
Russia	N/A	N/A	1,775	10,437

Source: Data retrieved from the International Monetary Fund online database (April 2011).

Empirical evidence has supported the occurrence of economic convergence in the past (Ball, Hallahan, & Nehring, 2004). For example, studies have found that per capita income levels among today's developed countries converged over the last century, particularly after World War II (e.g. Abramovitz, 1986; Baumol, 1986; Nelson, 1991). Because income differences between developed and developing nations are significant (see Table 5), economic convergence should take place.

Since institutional reforms fuel growth (Mpoyi, 2008; Yedder, 2005), and therefore facilitate the process of catching up, developing countries such as BRICs have restructured their economic and educational systems to make their environments more favorable for business. For example, planned and controlled economy was replaced by free market in countries such as China and Russia. By promoting entrepreneurship while also attracting foreign investments, the reforms opened up opportunities for rapid growth and modernization in developing nations. Indeed, as Table 6 shows, BRIC economies achieved GDP growth rates significantly higher than those of developed economies. The outcome of such high growth rates has been a rapid increase in BRICs' per capita incomes. From 2000 to 2010, the per capita

income of all BRIC economies more than doubled. China's per capita income went from $946 in 2000 to $4,382 in 2010, more than fourfold increase (Table 5).

TABLE 6
GDP GROWTH RATES FOR MAJOR COUNTRIES

Countries	1981-1985	1986-1990	1991-1995	1996-2000	2001-2005	2006-2010
Developed:						
United States	3.29	3.25	2.52	4.30	2.40	0.96
Japan	4.28	5.01	1.41	0.97	1.31	0.18
Germany	1.18	3.45	2.15	2.01	0.56	1.18
France	1.59	3.27	1.16	2.82	1.63	0.75
Developing:						
China	10.78	7.92	12.28	8.62	9.76	11.20
Brazil	1.20	2.09	3.10	2.02	2.80	4.41
India	5.23	5.95	5.00	6.18	6.51	8.57
Russia	N/A	N/A	N/A	1.77	6.13	3.61

Source: Data retrieved from the International Monetary Fund online database (April 2011).

Implied in the convergence theory is a progressive slowdown in backward economies' growth rates as the gap between their incomes and those of advanced economies closes. So as they catch up, BRIC economies should anticipate slowly declining growth rates. Once convergence is completed, BRIC nations will become high income countries and will therefore be part of advanced economies. At that point, probably a few decades from now, the global economic environment would be a different marketplace that can be described as follows. First, with the addition of new developed countries (e.g. BRICs), the pool of advanced economies will be much larger. Second, the combined GDP of the East will be bigger than that of the West because of the population factor (i.e. shift from West to East as far as GDP). Third, national competitive advantage across the larger pool of advanced will rather be similar to the one that exists among current developed countries (i.e. no shift from West to East when it comes to competitive advantage). In the end, companies' ability to achieve global competitive advantage will be primarily dependent on organizational capabilities, regardless of firms' home countries.

DISCUSSION

There is little doubt that given their population and increasingly qualified workforce, BRIC countries' GDP will be larger than that of developed Nations. Therefore, economic power will shift from West to East. Also, the East will probably close the competitiveness gap with the West. However, for several reasons, it is difficult to see how competitive advantage will shift from West to East (i.e. East becoming more competitive than West). First, the history of past economic convergence provides evidence that countries that were successful in catching up did not gain a significant competitive edge over previously advanced economies. For instance, after their income levels converged toward those of the United States, Western Europe and later Japan did not become more competitive than the United States. Consistent with the convergence theory, the East should expect a gradual slowdown in growth rate. In fact, a decline in growth rates may have already started in the largest BRIC economy. The Wall Street Journal (Back, October 16, 2011) and the Associated Press (McDonald, October 18, 2011) have reported that China's economic growth eased to 9.1% in the third quarter of 2011, slowing from 9.5% in the second quarter, 9.7% in the first quarter, and 10.3% in 2010. A 9.1% growth rate is still robust, and the slight slowdown may be the result of troubles that China's main trading partners are going through, the European Union debt crisis, and high US unemployment. Nonetheless, BRICs should start to see a slight but gradual moderation in their economic growth rates.

There is a second reason why competitive advantage is less likely to shift from West to East. China for example will need to address the consequences of an aging population (the result of a one-child policy). In the long term, this might cause a shortage of qualified workforce. Third, China would have to face global responsibilities that come with economic power. Because of its wealth, China will be expected to play a much greater role in addressing global concerns. It is however unclear how China would respond to growing demand to spend more resources in order to deal with problems such as solving military conflicts, intervening in humanitarian crises, or bailing out economies in difficulties. All these issues may ultimately limit the ability of BRIC economies (China in particular) to take over global competitive advantage in the future. While BRIC nations would be confronting these multiple issues, Ferguson (2011) argues that the West would have the opportunity to reform itself, upgrade its civilization, and in his own words 'reboot the software before it is too late'.

The fourth and much more important reason is related to structural rigidities. It is well known that Japan went through a lost decade in the 1990s, considerably limiting its economic expansion. The lost decade was caused in part by societal orientations such as reliance on an inter-organizational cooperative form called Keiretsu which involves numerous inefficiencies. Likewise, BRIC nations are and/or will be facing systemic issues, such as those that the largest BRIC economy, China, will confront in years to come. China has been quickly catching on, and also catching up, essentially because of its ability to emulate the West. Specifically, China successfully imitated five of six social developments that historian Ferguson (2011) identified as institutions that allowed the West to become the preeminent political and economic force in the modern world. The five social developments that China has mastered include competition, science, medicine, consumption and work ethic. However, as Ferguson pointed out, China has failed to effectively integrate into its political and legal system the rule of law that is the basis for the sixth social development, private property rights. For him, the reason for that failure is because private property rights are the outcome of a democratic system of representative government. Ferguson's argument is in line with an assumption that is at the core of the convergence theory. For rapid growth to occur, the convergence theory assumes that a backward country needs to have enlarged social capabilities. Social capabilities are tenacious societal characteristics such as education system, and political and economic institutions (Abramovitz, 1986; Nelson, 1991; Lusigi, Piesse, & Thirtle, 1998). Social capabilities are considered to be enlarged (or advanced) when a nation has an effective education infrastructure, a stable political environment, and a market economic system. As is the case with other BRIC nations, China has for the most part achieved an effective education system and successfully adopted free market system. Despite its economic success, China has been holding on to its communist regime. The China Daily, a Chinese newspaper, has referred to China's political system as social democracy, and to the interesting combination of social democracy and free market as socialist market economy (O'Neill, July 2011). Ferguson's argument that economic success should be supported by a democratic political system implies that without true democratic reforms, China would someday reach a point where its totalitarian system led by the communist party would clash with its growing wealth. For O'Neill (July 2011), the fact that the clash hasn't happened yet is the greatest global contradiction in a long time. If and when economic success and communist system collide, the extraordinary economic expansion of China will slow down or even come to a halt. Convinced that a clash between economic success and totalitarianism is certain, Ferguson does not believe that the future belongs to China.

For these reasons, the East will at best reach the competitiveness level of the West, but it will be less likely to take over global competitive advantage. Still, as discussed earlier, BRIC economies have the potential to grow faster in the few decades to come. The rise of high growth markets of BRICs may have a few competitive implications. The anticipated momentous shift of economic strength (in terms of GDP) from West to East led Newsweek magazine to suggest that Africa will have an opportunity to become the new Asia (Guo, March 2010). About two decades ago, entrepreneurship powered by the influx of returning skilled workers, the frenetic urbanization, a big push in services and infrastructure were among the key factors that transformed the economies of China and India. These factors are now driving a rapid emergence of middle class in Africa's most robust economies (Majahan, 2009). A growing middle class in Africa will increase consumption, a necessary condition to attract outside talent and capital (Guo,

March 2010). Furthermore, as incomes increase in the East (e.g. BRICs), multinationals will redirect some of their foreign direct investments towards Africa as it is still abundant in low labor costs. To become the new Asia however, Africa would need to undertake profound institutional transformations in its political, legal and economic systems (Mpoyi, Festervand, & Sokoya, 2006).

CONCLUSION

This paper was an attempt to examine the consequences of the unprecedented rise of developing economies, particularly BRIC nations, on the future of the global competitive landscape. Unless unexpected events drastically slow down the rapidly expanding GDP of BRICs, the income levels of developing economies of Brazil, Russia, India and China are predicted to converge toward those of developed economies of the West. Given their disproportionally large population, it appears likely that the combined GDP of BRICs will be bigger than that of Western countries. So the thesis that in the next few decades BRIC nations will be wealthier than today's developed countries has merit.

Although possible, the suggestion that the East will gain competitive edge over the West is questionable. It is hard to make the case that the West will lose global competitive advantage in favor of the East. This did not happen in the past. After World War II, the United States remained the only economic power. Then income levels of Western Europe and Japan gradually converged toward those of the United States. Once they converged, Western Europe and Japan did not become more competitive than the United States. So, in itself, economic convergence does not lead to a shift in competitive advantage. Also, as it catches up, the East will encounter structural difficulties such as inadequate social capabilities. These difficulties have the potential to slow the rapid growth of the East in the long-term.

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