Introduction

This handbook discusses the main economic statistics of the G-20 countries (i.e., Saudi Arabia, Argentina, Brazil, Canada, China, South Korea, France, Germany, Japan, India, Indonesia, Italy, Mexico, the United Kingdom, Russia, South Africa, Turkey, the United States, the European Union, and the African Union (which joined the G-20 in 2023)), with the aim of providing an objective analysis of these economies and their economic policies over the decades. To this end, it is essential to improve the informational capacity of these data by focusing on the financial dynamics of each country's balance of payments.

The balance of payments is an accounting document that records every economic transaction between a given state and every non-resident entity. It is divided into three sections: current account, capital account, and financial account.

According to the BPM6, these three sections are related by the following formula:

$$\text{current account} + \text{capital account} - \text{financial account} + \text{errors} = 0$$

The current account includes all transactions between residents and non-residents, and all transactions in goods, services, and primary and secondary income.

Primary income consists of "earned income" (in situations where the employer and the employee reside in different countries, i.e., an Italian engineer receives payment on his Italian bank account for his work on a construction site in Africa. Other examples: interest received by an Italian citizen on funds invested in Australia; wages received by non-resident maids working in Italy), "capital income" (income derived from foreign assets of residents, classified as credits, and income derived from national assets of non-residents, classified as debts), and "other primary income" (taxes on production and imports, production subsidies, and compensation for the use of natural resources).

Secondary income includes current transfers between residents and non-residents without reciprocity, such as international aid, current taxes on income or wealth, and remittances between related resident and non-resident subjects.

Goods and Services make up the Balance of Trade, which is the balance of imports and exports.

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Assuming that there are only two countries in the world, if one of them has more imports than exports, it must find sources to finance the resulting negative balance (for example, by disinvesting from some activities abroad). These international transactions of resident entities are recorded in the financial account of the balance of payments.

This account records the outflow of liquidity from Italy (resulting, for example, from disinvestment abroad by residents or from investment in Italy by non-residents).

Direct investment includes the purchase or acquisition of a controlling interest in a foreign enterprise by means other than the purchase of shares. Portfolio investment includes transactions in shares and bonds between residents and non-residents. Other investment includes trade receivables, loans, deposits, and other similar transactions. Two minor items are derivatives and foreign reserves held in currencies other than the euro.

These dynamics allow us to examine the economic policies of the G-20 members, taking into account the evolution of the global geopolitical framework (Figure 0.1).

The analysis of GDP clearly shows that the United States, China, and the EU are the main shareholders of the world's total production (Figure 0.2).

The unemployment rate is a reliable indicator of whether a country is experiencing balanced social and economic development, and allows for cross-data analysis between GDP and population. Not surprisingly, the highest rates are found in many African, South American, and Middle Eastern countries, areas that have historically been characterized by social conflict and shaken by geopolitical tensions (Figure 0.3).

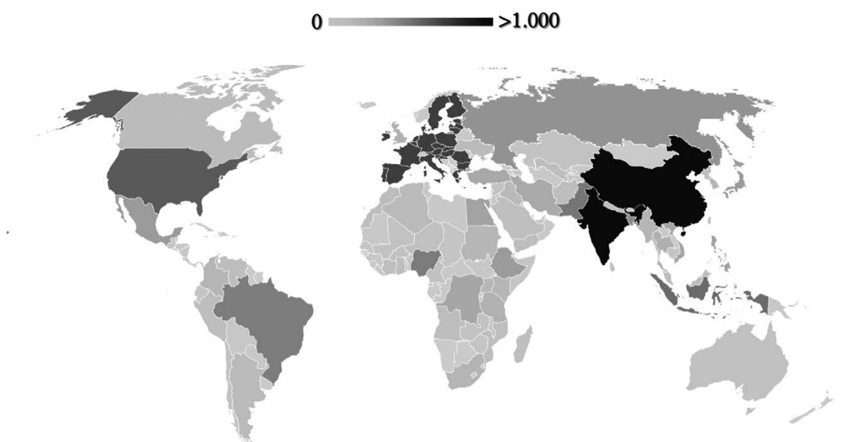

Figure 0.1 Population – World [Year 2022] – (*Millions*)

Source: World Bank, UN – elaborated by the author

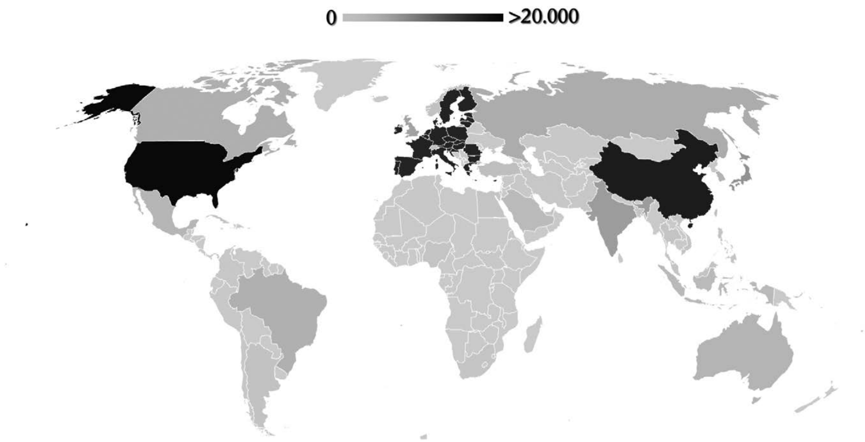

Figure 0.2 GDP – World [Year 2022] – (*Billion $*)

Source: World Bank, IMF, OECD, Eurostat, FED – elaborated by the author

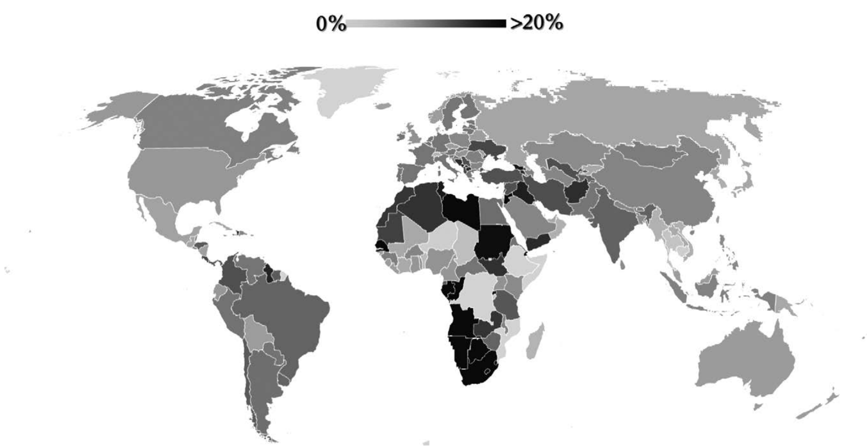

Figure 0.3 Unemployment – World [Year 2022] – (*percentage*)

Source: World Bank, UN, IMF – elaborated by the author

A first insight into the world's major economies can be gained by analyzing total trade (exports + imports) for the United States, the EU, and China (Figure 0.4).

The data clearly show that China's total trade balance with the world exceeds both the United States and the EU by more than 10%. If we look at the same data from the year 2000, when China played a relatively marginal role on the global economic stage, we see that the rise of the Dragon began about 10–15 years ago (Figure 0.5).

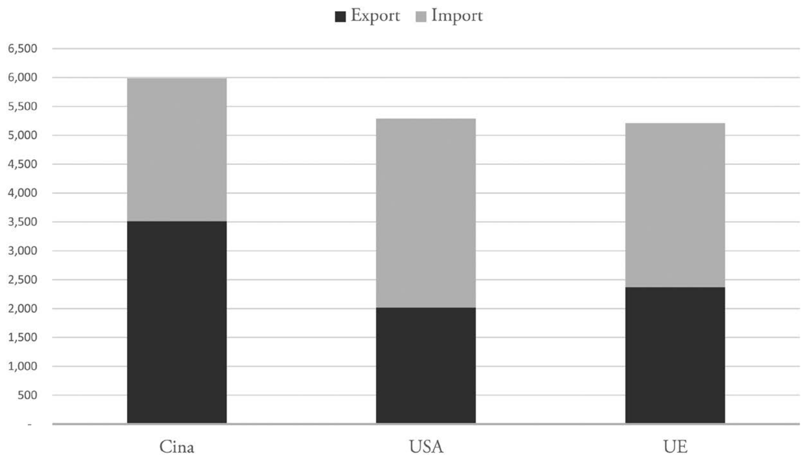

Figure 0.4 Total trade – China, the United States, EU *vs.* World [Year 2022] – (*Billion $*)

Source: UN, World Bank, IMF – elaborated by the author

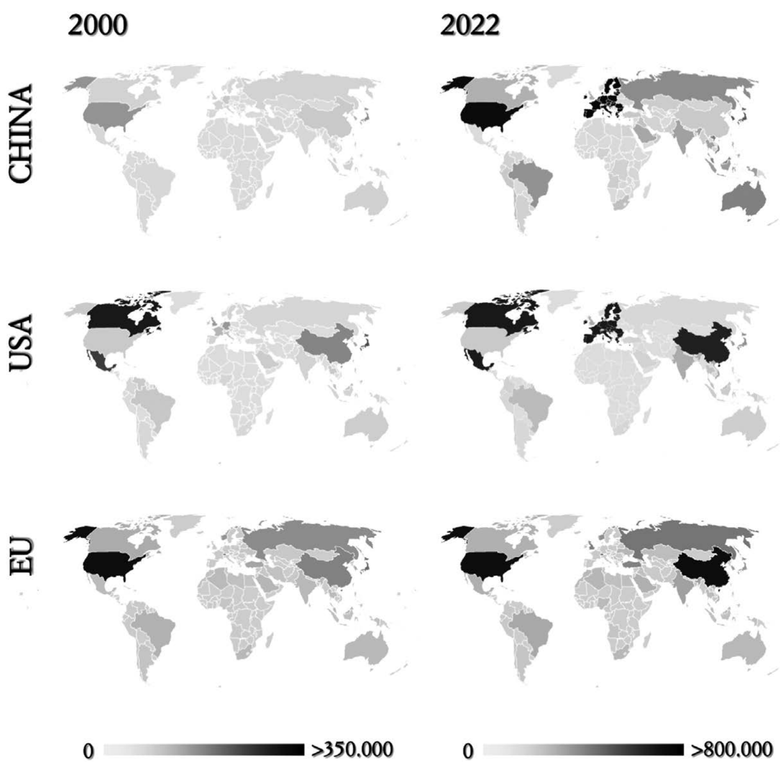

Figure 0.5 Total trade – China, the United States, EU *vs.* World [Year 2000 *vs.* 2022] – (*Billion $*)

Source: US Bureau of Economic Analysis, National Bureau of Statistics of China, Eurostat – elaborated by the author

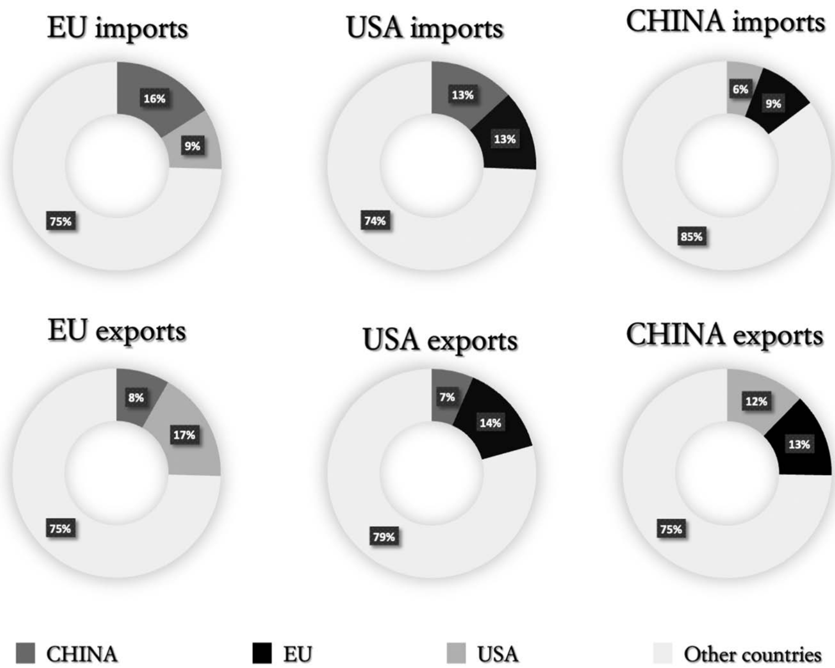

Figure 0.6 Total trade breakdown – EU, the United States, and China *vs.* World [Year 2022] – (*percentage*)

Source: US Bureau of Economic Analysis, National Bureau of Statistics of China, Eurostat – elaborated by the author

Looking at the total trade flows between these three economies (Figure 0.6), we notice that:

- about a quarter of each economy's exports go to the other two.
- on the import side, China has a comparatively lower dependence than the other two major economies, accounting for a 15% share. On the other hand, the United States and the EU import approximately 25% each from the other two economies.
- the EU exports mainly to the United States and imports mainly from China.
- the United States exports mainly to the EU and its imports are equally divided between China and the EU.
- China imports mainly from the EU and its exports are equally divided between the United States and the EU.

Looking at export dynamics, it appears that China has been pursuing a global market penetration strategy over the past 20 years, with a particular focus on the United States; the same cannot be said for the United States and the EU (Figure 0.7).

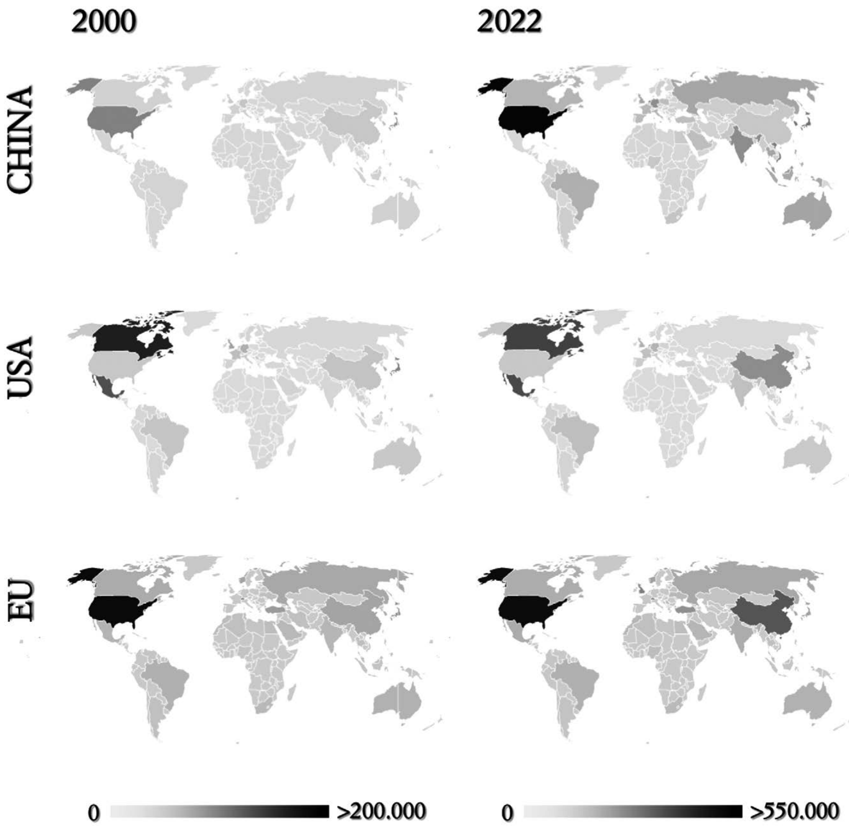

Figure 0.7 Exports – China, United States, and UE *vs.* World [Year 2000 *vs.* 2022] – (*Billion $*)

Source: US Bureau of Economic Analysis, National Bureau of Statistics of China, Eurostat – elaborated by the author

On the import side, China has also developed a well-diversified trade strategy over the past 20 years, while strengthening its role as a supplier to the United States and the EU (Figure 0.8).

An overview of the global economy cannot be separated from an analysis of the dynamics of public finances, which also reflect the fiscal policy capabilities of individual countries. In this case, the main indicator is the debt-to-GDP ratio: in general, financially advanced countries tend to have particularly high debt-to-GDP ratios (i.e., the United States, the EU, and Japan), reflecting the role of finance in supporting the national economy (Figure 0.9).

The effectiveness of policy decisions can be assessed using a number of indicators. Interest rates and inflation provide a parameter to measure, for each country, the degree to which economic policy focuses on price stability, protection of purchasing power, and debt management (Figure 0.10).

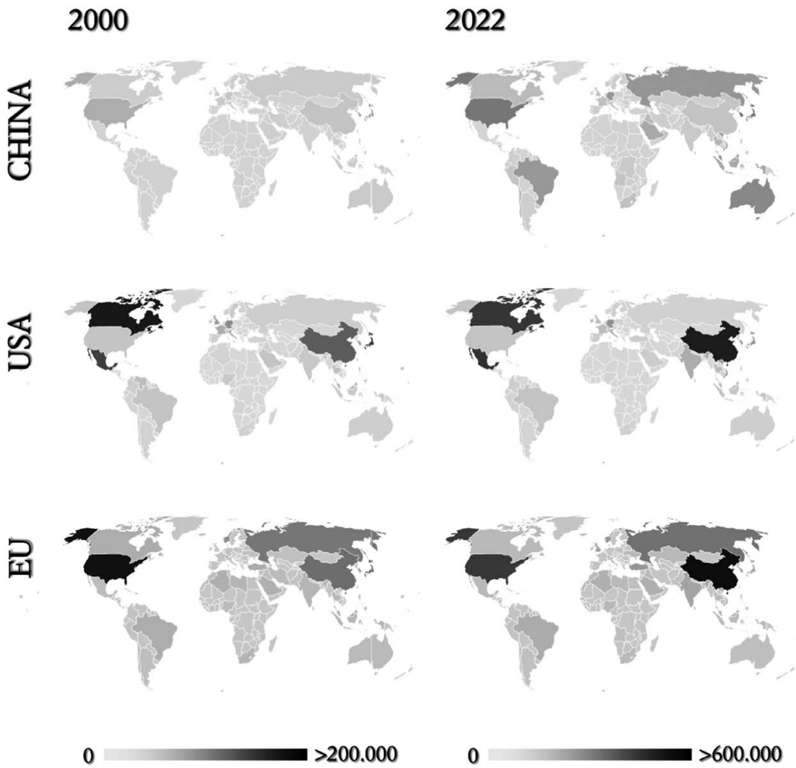

Figure 0.8 Imports – China, United States, EU *vs.* World [Year 2000 *vs.* 2022] – (*Billion $*)

Source: US Bureau of Economic Analysis, National Bureau of Statistics of China, Eurostat – elaborated by the author

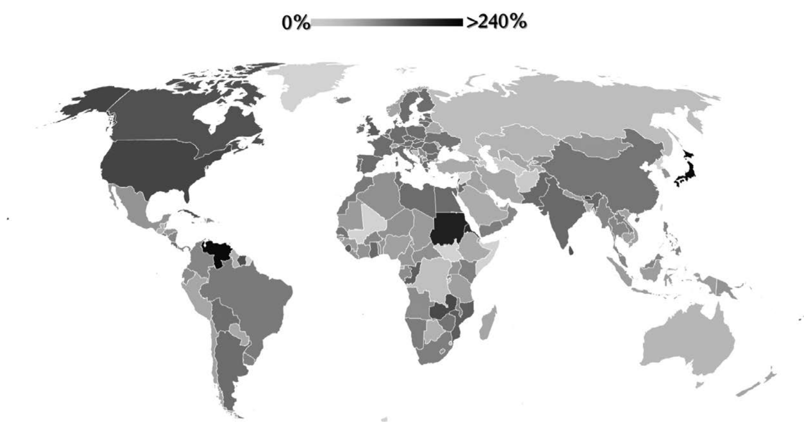

Figure 0.9 Debt-to-GDP ratio – World [Year 2022] – (*percentage*)

Source: World Bank, IMF, OECD

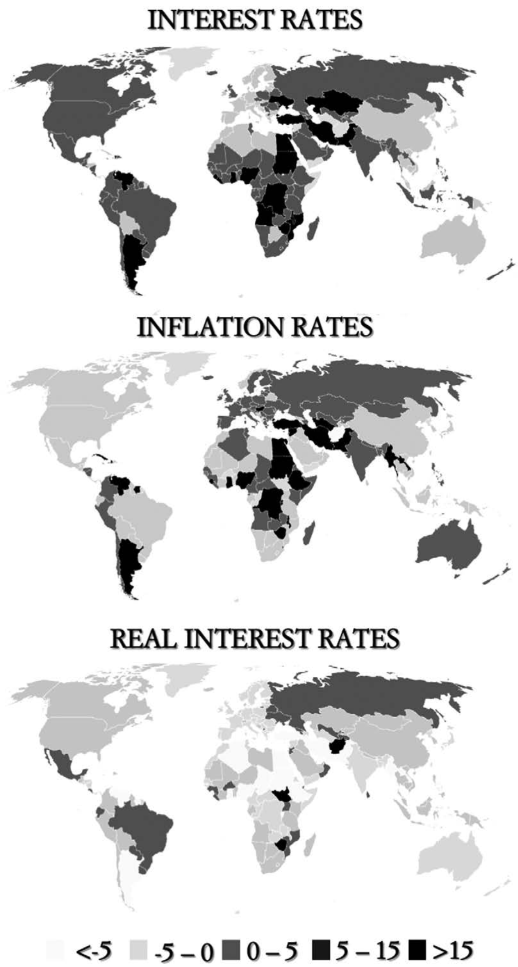

Figure 0.10 Interest rates, inflation rates, real interest rates – World [Year 2022] – (*percentage*)

Source: World Bank, IMF, US Bureau of Economic Analysis, National Bureau of Statistics of China, Eurostat – elaborated by the author

In particular, these two variables highlight the economy's "global warming" of 2022, triggered mainly by logistics, food, and energy inflation that affected the post-pandemic phase.

Unsurprisingly, the countries most affected by inflation and price increases are in Africa, South America, and Southeast Asia. However, it is interesting to note that in many of these countries, inflation is outpacing interest rates, resulting in negative real interest rates. Negative interest rates can be considered as a double-edged sword: while they can provide a financial lifeline for those in debt, they can also decrease families' purchasing power.

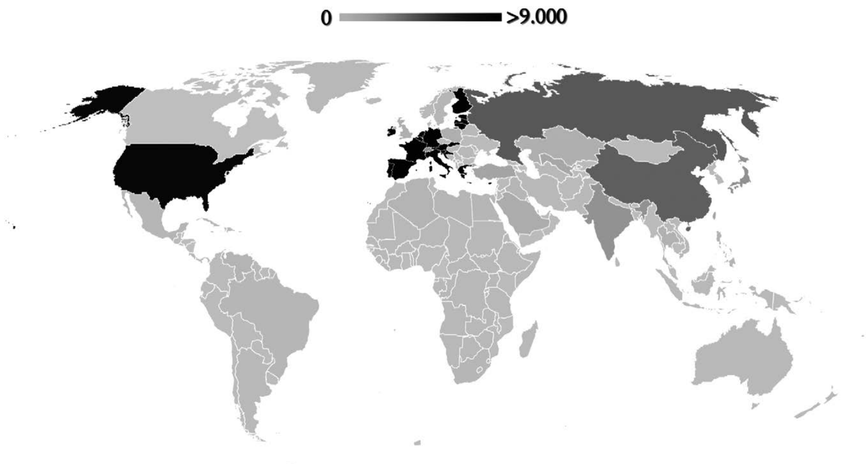

Figure 0.11 Gold reserves – World [Year 2022] – (*tons*)

Source: World Gold Council – elaborated by the author

Looking at the world's three largest economies, only the EU, despite all the limitations of a currency without a state, has negative real interest rates, unlike China and the US.

Any monetary policy is shaped by a country's gold reserves (Figure 0.11).

Even today, the gold reserves held by central banks serve as a safeguard for any economy. It is no surprise, given that the gold standard maintained the value of an ounce of gold at 35 US dollars until 1971.

Surprisingly, the Bank of England has no gold reserves of its own, despite its role as custodian for many countries. The largest gold reserves globally are held by EU countries and the United States, with China and Russia rapidly increasing their reserves as well.

The relationship between gold and the economy is intertwined with the history of the US dollar. An analysis of the global financial system necessarily involves an examination of the dollar's evolution.

In recent decades, the US dollar has become dominant in international trade and finance. This is partly due to the structure managing financial transaction payments. This structure comprises SWIFT (Society for Worldwide Interbank Financial Telecommunications), which serves as an international messaging system, essentially controlled by the Federal Reserve and the European Central Bank, alongside two settlement systems – CHIPS (Clearing House Interbank Payments System) and FFS (Fedwire Funds Services), both owned by the Federal Reserve.

Over time, the US dollar has become the de facto settlement currency at the core of the global financial system. This circumstance favored the United States and its central bank (FED), ensuring its complete and boundless dominance over the world economy and creating a constant and artificial demand for US dollars around the globe. This monetary dominance ended up violating the monetary sovereignty of other countries. In certain situations, the United States has utilized its currency as a weapon by restricting a country's access to American dollars. This action would cause that particular country to be unable to engage in economic or financial transactions with the international community.

The dollar-centric nature of the financial system has been used to impose economic sanctions on Russia since the occupation of Crimea in 2014, as well as through the various packages of sanctions imposed on the country in response to the invasion of Ukraine. For example, a number of Russian banks have been banned from using the Swift system. In addition, some $300 billion held by the Russian central bank has been "frozen".

However, it looks like this framework is slowly changing. Over the past few years, we have witnessed a slow but seemingly inexorable de-dollarization of global trade: many countries have implemented policies aimed at reducing their dependence on the US dollar for their international transactions. For example, at the time of the occupation of Crimea, Russia responded to sanctions by creating its own financial messaging system (i.e., System for Transfer of Financial Messages, SPFS). China has also created its own alternative to CHIPS, the Cross-Border Interbank Payments System (CIPS). Starting in 2022, both SPFS and CIPS demonstrated relevant interoperability, allowing for an increase in yuan-settled trade between Russia and China to a volume nearly 100 times higher than in the previous year (Figure 0.12).

In the same vein, representatives of the BRICS member states, an organization that recently admitted six new countries (UAE, Saudi Arabia, Argentina, Egypt,

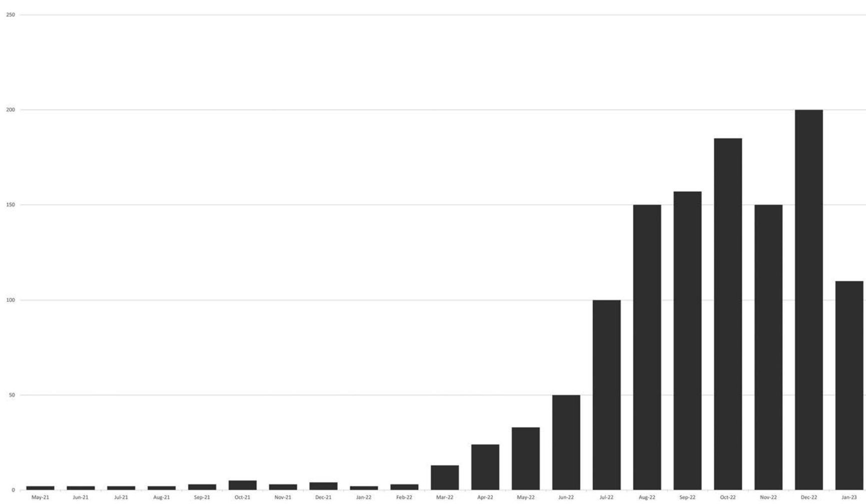

Figure 0.12 Trade between Russia and China [Year 2022] – (*Billion Yuan*)

Source: US Bureau of Economic Analysis, National Bureau of Statistics of China – elaborated by the author

Ethiopia, and Iran), planned to create a new global reserve currency during the summit in the summer of 2023. In particular, Brazil and Argentina are ready to launch their own unit of account to be used for the settlement of their trade transactions. The ASEAN countries also worked on developing a similar cooperation tool during their latest summit in 2023. Furthermore, India and China have signed agreements with 41 and 18 countries, respectively, to settle transactions in yuan and rupees.

In summary, all of the de-dollarization strategies outlined above aim to diversify the global economy while minimizing the risks associated with the dollar as the sole settlement currency and reducing the potential negative impact of US monetary and political decisions on other countries.

From the U.S. perspective, the areas most at risk in terms of international agreements and structural transformation are Asia, the Middle East, South America, and Australia (Figure 0.13).

The slow but steady evolution of this process can also be measured by looking at global reserve turnover data (Figure 0.14).

Looking at global data on foreign exchange reserves, it is also clear that the euro has played a significant role in financial market dynamics since its introduction, becoming the only reserve currency to reach a double-digit share, reflecting the importance of the European economy.

The dollar's and the euro's spheres of influence can be compared by looking at the turnover data for international transactions (Figure 0.15). It is clear that the greenback remains the undisputed settlement currency for commodity trade, dominating transactions in North and South America, Far and Southeast Asia, the Middle East, and parts of Africa, while the euro's sphere of influence includes Eurasia and the French-speaking areas of Africa.

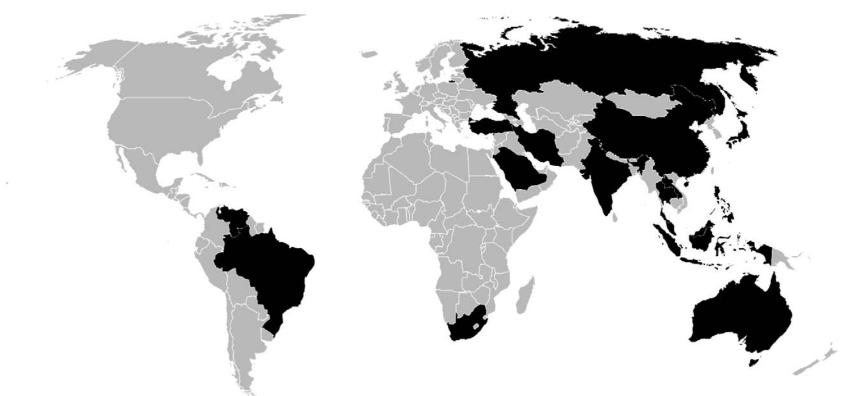

Figure 0.13 De-dollarization of global economy [Year 2022]

Source: Bloomberg L.P., Bank for International Settlements, IMF, US Bureau of Economic Analysis, World Bank, FED – elaborated by the author

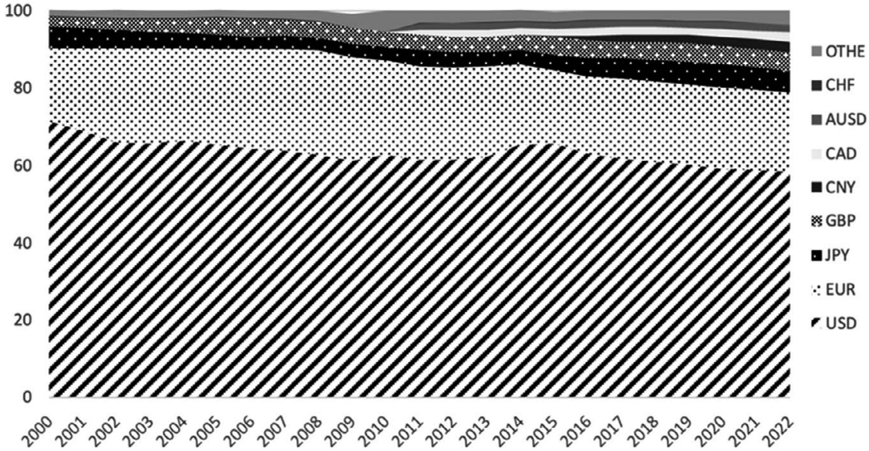

Figure 0.14 Foreign reserves – World [Years 2000–2022] – (*percentage*)

Source: Bank for International Settlements – elaborated by the author

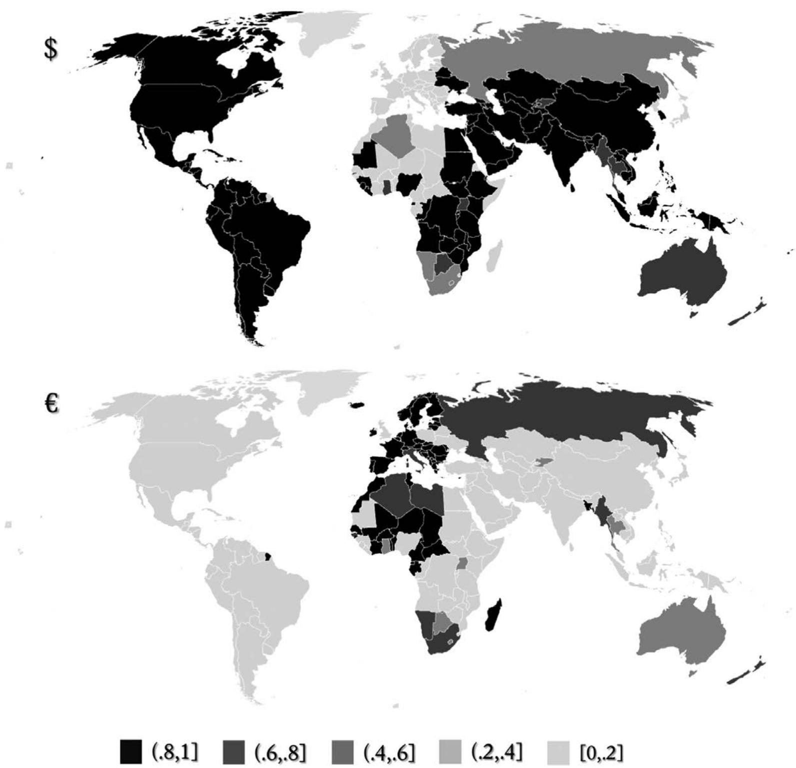

Figure 0.15 Dollar's influence *vs*. Euro's [Year 2022] – (*Million $*)

Source: Bloomberg L.P., Bank for International Settlements, IMF, US Bureau of Economic Analysis, World Bank, FED, Eurostat, BCE – elaborated by the author

By examining each of the G20 economies, this handbook provides a framework for understanding how the global financial system is currently being reconfigured toward multipolarity.

In summary, it can be said that from 1945 to 1991, the world had two clear poles: on the one hand, the United States and on the other, the USSR and their respective allies were the two forces competing for global supremacy. In fact, until the 1980s, the Soviet Union and its satellites undeniably represented an alternative to American market capitalism, pursuing a completely different economic and political vision. When the Soviet Union collapsed, no real alternative remained to the star-spangled economic dominance on the international stage. The world economy shifted from a "bipolar" system to what is essentially a "monopolar" system.

This system, which was basically unquestioned during the 1990s and most of the 2000s, is currently being challenged by the rapid economic development of China and India, which, together with Russia, are, not without some ambiguity, on the same side. Moreover, if the BRICS organization proves to be a reliable instrument for cooperation, its members could play their part in completely disrupting the old economic and geopolitical equilibrium.

It is unlikely that we will witness a replay of the Cold War scenario with a map clearly partitioned into two distinct zones of influence. Instead, an analysis of current geopolitical developments suggests that a new landscape is emerging on the horizon.. Indeed, Brazil and Argentina have been under American influence in recent decades, as has the whole of Central and South America. Nevertheless, these emerging economies are pioneering new paths in development by establishing relationships with Russia, China, and India while still maintaining ties with the United States. Moreover, some of Africa's robust economies occupy a nebulous gray zone (think of their role as mediators in the Russian-Ukrainian conflict): having distanced themselves from their previous colonizers, they presently find themselves ensnared between the Atlanticist allies and new global contenders, notably China. That being said, these African up-and-comers are endeavoring to perform an increasingly self-governing role (and reclaim an autonomous identity), exemplified by the African Union's accession to the G20.

Another interesting and extremely complex area is the Middle East. Cooperation between these countries is complicated by religious divisions within Islam, but the recent surprising rapprochement between two "former enemies," such as Saudi Arabia, the reference point of the so-called "Sunni bloc," and Iran, the main Shiite country, could change the political order of the region.

All of these dynamics were strongly influenced by the global financial crisis of 2008, the Eurozone sovereign debt crisis of 2012, the COVID-19 pandemic of 2020, and the Russo-Ukranian pandemic that broke out in 2022. The climate emergency has also become increasingly relevant, as it has a direct impact on the productive apparatus and on migratory flows. It is now clear that all the theories denying the existence of global warming have only had the effect of slowing down awareness of the problem.

A question that must be addressed is the global demographic trend, which shows that Africa's population will continue to grow in the coming decades, while in the

West, and in general in the most economically developed countries, the birth rate is rapidly declining, with repercussions on welfare systems.

In conclusion, it seems that we are moving towards a global order that is much more complex and entropic than in the past, deeply influenced by the interrelationships between numerous poles of attraction.

It is precisely this complexity that makes it necessary to understand the current economic realities of the main global actors and their relationship with their respective geopolitical choices.