GLOBAL GEOPOLITICAL BUSINESS ENVIRONMENT

GLOBALIZATION

- Rapid integration and interdependence of nations of the world brought about by economic liberalization: reflected in ease of transfer of factors of production, i.e., land, labor, capital, and technology that is reflected in increased trade (goods, services, and technology) and investment.
- Globalization is brought about through national policy choices: (a) freer trade in goods, services, and investment liberalization --role of GATT, WTO, IMF, World Bank, etc., (b) move toward free market system, (c) institutional reforms, i.e., privatization, transparency, and rule of law, and (d) adopting technologies that reduce transportation and communication (Internet & supply chain) costs.
- What's new with globalization now? (a) the scale and pace of current episode is unprecedented, (b) traditional distinction between industrial economies and emerging market economies is getting blurred, (c) production process is becoming geographically fragmented, and (d) international financial markets (for debt, equity, derivatives, etc..) are more mature and liberalized.
- WTO emphasizes “non-discrimination” or equal treatment or Most Favored Nation (MFN) status for members. The Doha Round (2001) of trade discussions calls for liberalization of trade in agriculture, industry and services. Removal of trade distorting subsidies in Agriculture (US, EU’s CAP, Japan) has pitted developed countries against the emerging giants --China, India, and Brazil. The best approach is to liberalize trade at the global level, i.e., through the WTO failing which growth of regional trading blocks would be the second best choice, which may lead to some countries like Mongolia falling through the cracks!

WHAT MAKES AMERICA TICK?

America’s dynamism can be attributed to:
- Free & competitive (flexible) market structure with relatively open trade systems
- Private property and property rights
- Transparency and rule of law
- Well functioning institutions (economic and political)
- World-class physical infrastructure with challenging social (education, health care, income distribution, savings, etc..) systems.

Challenges facing the United States:
- Geopolitical transformation and its impact on securing natural resources
- Global economy moving from unipolar (US dominated) to a multi-polar (China, Russia, EU, India, and Brazil-centered) world
- Rising defense spending at the expense of spending on education and health.
- Low savings (2% GDP to negative --savings as a percentage of disposable income) leading to twin deficits (fiscal and current account)
- Inadequate political pluralism --work in progress democracy (two-party system)
China and India’s strengths:
- Size and growth of the middle class (>300 million each)
- High personal savings rate (China 40% and India 25% of GDP --also reflects inadequate social safety net)
- Highly productive and large labor force in pipeline
- Large FX reserves to stabilize economy

Major challenges:
- **China:** (a) will rising income disparity between classes lead to social unrest, (b) can economic reforms continue without adequate political reforms, (c) corruption and the role of People's Liberation Army (PLA), and (d) inadequate financial sector reforms.
- **India:** (a) horrible physical infrastructure --roads, airports, seaports, power generation, water, sewer, and (b) institutionalized corruption and misrule of law --greater need for deregulation

Brazil and Russia’s strengths:
- Rich in natural resources
- Russia in particular has excellent technical talent vs. business talent
- Growing middle class

Major challenges:
- Inconsistent economic reforms (fits and starts)
- Corruption
- Brazil in particular has horrible income distribution that has potential for social unrest