

The emergence of a new globalism with economic groupings as key players

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The Bretton Woods Agreement

- After WW2 the US took the initiative to call a conference which led to the establishment of the International Monetary Fund and the International Bank for Reconstruction and Development (IBRD) which became the World Bank, facilitating international monetary and financial transactions among countries of the world setting the foundation for a new world order fostering globalization

From GATT to WTO

- Also established was the General Agreement on Tariffs and Trade, a negotiation forum on inter country trade and investment, which was converted into the World Trade Organization which in addition has a conflict resolution mechanism

Cooperation at three levels

- Multilateral
- Regional
- Bilateral

Note: thus countries could cooperate at the international, regional and country to country levels for trade and investment as the corner stones of globalization

Growth of multinational companies

- With the IBRD and the Marshall Plan fostering the reconstruction of Europe, there was a significant growth of multinational companies

Japan and globalism

- With limited natural resources and a rather small market, Japan and its companies went global in a great way

Globalism

- Bilateralism and regionalism facilitated the rise of globalism

The two blocs

- There was one group of countries following the capitalism credo; many newly independent countries joined the IMF, World Bank and WTO
- There was another group of countries following the communism credo

Note: there was thus a divide

End of divide

- The world became one large economic system with mixed economies with joint roles of the private and public sectors
- Regional groupings and agreements became very important in context

At the country level

- Economic geography is very important: resources and location
- Need to take a broader outlook: pattern of economic cooperation and in some cases integration

Economic geography

- Size matters; case in point the USA: big with large amount of natural resources, human resources, entrepreneurship, size of market with economies of scale which together explain the position of the US in the world economy

USA

- A little bit of history: 50 states became 'united' and thus the United States; economic and political integration; plus Washington DC, Puerto Rico, Marshall Islands, Guam, US Virgin Islands ...
- The immigrant factor: decisive resource
- Regional location as a plus factor: proximity to Canada, Mexico, Caribbean, Central America and South America

Economic geography

- Small country is not necessarily bad either; they can gain economic advantage through cooperation (for example Singapore and ASEAN) or integration (for example countries in Europe and the EU)

Economic cooperation

Countries enter into agreement to cooperate for trade and investment

Geographic proximity is a plus factor as a basis for regionalism, but such cooperation could be bilateral and/or multilateral even if the countries are not contiguous

Major advantages: win-win (even if there is competition) rather than zero sum game

Economic integration

- Going further than cooperation; proximity is a factor for regionalism (pooling of resources), with several stages:
 - Abolition of tariffs, non tariff barriers and quotas
 - Common external tariffs and quotas
 - Abolition of restriction on factor movements
 - Harmonization and unification of economic policies and institutions

Note: economic integration could go up to political integration albeit union (US case in point)

Benefits of regional economic integration

- More efficient use of factor resources
- Size of market and related economy of scale (recall how the US used the size factor to its advantage for years; now growing competition with the rise of regional economic integration)
- Combined resources such as for R&D
e.g. Airbus

Disadvantages of regional economic integration

- Lost of 'independence' e.g. decision made in Brussels not in Paris
- The stronger partners have an edge

Comparison: regional vs global

- (a) regional economic integration vs (b) multilateral trade liberalization
- Negotiation and agreement in (a) relatively easier (commonality of interest; win-win) than (b) where in WTO it is at time hard to get all countries of the world to agree! (Doha negotiation stalled)

European Union

- Leading in economic integration at times with growing pains!
- Currently made up of 28 countries
- Has gone through several stages since first step in 1951

EU the first steps

- **1951 6 members of coal and steel community**
 - **France, Germany (W.), Italy, Belgium, Netherlands, Luxembourg**
- **1957 Treaty of Rome: European Community**
 - **Common market**
 - **Elimination of internal trade barriers**
 - **Common external tariff**
 - **Free movement of factors of production**
- **1973 1st enlargement: Britain, Ireland, Denmark**

EU

- **1981 2nd enlargement: Greece**
- **1983 3rd enlargement: Portugal, Spain**
- **1992 single European act**
- **1994 Maastricht treaty: European Union**
- **1996 4th enlargement: Austria, Finland, Sweden**
- **2003 5th enlargement: Poland, Hungary, Czech Republic, Lithuania, Estonia, Latvia, Slovenia, Cyprus, Malta, Slovakia**

The Euro

- **Maastricht treaty:**
 - **European common currency adopted 1/1/99**
 - **Common foreign and defense policy**
 - **Common citizenship**
 - **EU parliament with “teeth”**

Note: Sweden, Denmark, Britain opted out of use of Euro

New countries have to qualify

Benefits of Euro

- **Lower transaction costs for individuals / business**
- **Prices comparable across the continent; increased competition**
- **Rationalization of production across Europe to reduce cost**
- **Pan-European capital market**
- **Increase range of investment options available to both individuals and institutions**

Euro issues

- **ECB has monetary policy control not nations**
 - **Sets interest rates, monetary policy**
 - **Is independent; instructs national central banks**
- **EU is not an optimal currency area**
 - **Few similarities in structure of economic activity (e.g., Finland vs Portugal)**
 - **Interest rates too high in depressed regions or too low for economically booming regions**
 - **May need fiscal transfers from prosperous to depressed regions**
- **Economic and political issues may conflict**

EU issues

- Norway opted out
- UK: BREXIT
- Turkey membership pending
- The PIGS issues

The Americas

- **North American Free Trade Agreement (NAFTA): USA, Mexico, Canada**
- **The Andean Pact: Bolivia, Chile, Ecuador, Colombia, Peru**
- **MERCOSUR (FTA): Brazil, Argentina, Paraguay, Uruguay**
- **Central American Free Trade Agreement (CAFTA): Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua**

NAFTA

- **USA, Canada, Mexico (FTA-1988)**
 - **USA-Canada is world's largest trading relationship**
 - **USA is Mexico's largest trading partner**
 - **Mexico, USA's third largest trading partner**
- **Trade opening process through tariff elimination**

NAFTA - Key provisions

- **General (effective 1/1/94)**
 - **Tariffs of all sectors reduced by 99% over 10 yrs**
 - **FDI unrestricted (x-oil and railways in Mexico, Culture in Canada, airlines-communications US)**
 - **No free movement of labor (x-white collar easement)**
 - **Protection of intellectual property rights**
 - **Cross-border flow of services unrestricted**
 - **Application of environmental standards**
 - **Two commissions have the right to impose penalties on issues of health/safety, child labor, minimum wages**

Implications for Business

➤ Opportunities

- Less protectionism; higher economic growth
- Lower cost of doing business (fewer borders)

➤ Threats

- Cultural differences persist
- Increased price competition within blocks
- Across-trading-block rivalry can increase barriers
- Improvement of competitiveness of many local firm within the blocks

Back to economic geography

Compare: China, India, Russia

In terms of size and economic resources: 'big' is definitely an advantage: size of market, size of territory, growing economy

ASEAN

Association of South East Asian
Nations= framework for cooperation:

- Political and security
- Economic
- Cultural

ASEAN

- The Association of Southeast Asian Nations, or ASEAN, was established on 8 August 1967 in Bangkok, Thailand, with the signing of the ASEAN Declaration (Bangkok Declaration) by the Founding Fathers of ASEAN: Indonesia, Malaysia, Philippines, Singapore and Thailand.

ASEAN

- Brunei Darussalam then joined on 7 January 1984; Viet Nam on 28 July 1995; Lao PDR and Myanmar on 23 July 1997; Cambodia on 30 April 1999

ASEAN

- To accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian Nations; to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter

ASEAN

- To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields; to provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres

ASEAN

- To collaborate more effectively for the greater utilization of their agriculture and industries, the expansion of their trade, including the study of the problems of international commodity trade, the improvement of their transportation and communications facilities and the raising of the living standards of their peoples; to promote Southeast Asian studies; and, to maintain close and beneficial cooperation with existing international and regional organizations with similar aims and purposes, and explore all avenues for even closer cooperation among themselves.

ASEAN plus three

- China is a member of the **ASEAN plus three group** along with Japan and South Korea (huge market, huge economic capacity; the Asia century?)

Regional cooperation in Africa

- From the Organization of African Unity (OAU)
- to the African Union (AU)

OAU

- The Organization of **African Unity** (OAU; French: Organisation de l'unité africaine (OUA)) was established on 25 May 1963 in Addis Ababa, with 32 signatory governments. It was disbanded on 9 July 2002 by its last chairperson, South **African** President Thabo Mbeki, and replaced by the **African Union (AU)**.

OAU

- Framework for political and economic cooperation

African Union

- The **African Union (AU)** is a continental union consisting of 54 countries in Africa. It was established on 26 May 2001 in Addis Ababa, Ethiopia and launched on 9 July 2002 in South Africa,^[6] with the aim of replacing the Organisation of African Unity (OAU). The most important decisions of the AU are made by the Assembly of the African Union, a semi-annual meeting of the heads of state and government of its member states. The AU's secretariat, the African Union Commission, is based in Addis Ababa.

African Economic Community

- The **African Economic Community (AEC)** is an organization of African Union states establishing grounds for mutual economic development among the majority of African states. The stated goals of the organization include the creation of free trade areas, customs unions, a single market, a central bank, and a common currency (see African Monetary Union) thus establishing an economic and monetary union.

Maghreb Union

- is a trade agreement aiming for economic and future political unity among Arab countries of the **Maghreb** in North Africa.

Maghreb Union

- In June 1988, the Algerian, Libyan, Mauritanian, Moroccan and Tunisian Heads of States met in Algiers to deliberate the creation of the Arab *Maghreb Union*. The Arab *Maghreb Union* (AMU) was founded in February 1989 in Marrakech with the approval of the Treaty Instituting the Arab *Maghreb Union*.

Maghreb Union

- is a trade agreement aiming for economic and future political unity among Arab countries of the Maghreb in North Africa. The Union has been unable to achieve tangible progress on its goals due to deep economic and political disagreements between Morocco and Algeria regarding, among others, the issue of Western Sahara. No high level meetings have taken place since 2008; the Union is considered as stagnant

Organization of Islamic Cooperation

- founded in 1969 consisting of 57 member states, with a collective population of over 1.6 billion as of 2008. The organization states that it is "the collective voice of the Muslim world" and works to "safeguard and protect the interests of the Muslim world in the spirit of promoting international peace and harmony

Back to Asia

- Asia-Pacific Economic Cooperation (**APEC**) is a forum for 21 Pacific Rim member economies that promotes free trade throughout the Asia-Pacific region.

APEC membership

- 21 members:
- <http://www.apec.org/About-Us/About-APEC/Member-Economies.aspx>

Trans Pacific Partnership

- **The Trans-Pacific Partnership (TPP) or Trans Pacific Partnership Agreement (TPPA)** is a trade agreement among twelve of the Pacific Rim countries—notably not including China. The finalized proposal was signed on 4 February 2016 in Auckland, New Zealand, concluding seven years of negotiations. It is currently awaiting ratification to enter into force

TPP

- The TPP began as an expansion of the Trans-Pacific Strategic Economic Partnership Agreement (TPSEP or P4) signed by Brunei, Chile, New Zealand, and Singapore in 2005. Beginning in 2008, additional countries joined the discussion for a broader agreement: Australia, Canada, Japan, Malaysia, Mexico, Peru, United States, and Vietnam, bringing the total number of countries participating in the negotiations to twelve.

FTAAP

- FTAAP first made its appearance in 2006 at APEC summit in Hanoi. Aim is to create a free trade zone that will considerably expand commerce and economic growth in the region. At the 2014 APEC summit in Beijing, China urged APEC leaders to launch "a collective strategic study" on the FTAAP.
- It will be the first regional free trade agreement that includes both China and US, which will boost the development of economy not only within Asia-Pacific, but also on a global scale.

FTAAP

- Seen as a counter entity to TPP

BRICS

Cooperation among:

- Brazil
- Russia
- India
- China
- South Africa

The Asia Century

- Is underway
- The New Silk Road
- At the last World Economic Forum, China talked of a new globalism

Meanwhile, the US

- America First
- Questioning multilateral and regional and in some cases bilateral trade agreements
- Left the TPP

The UK

- BREXIT

The Economist

- The Retreat

The biggest business idea of the past three decades is in deep trouble

New Globalism conclusion

- New globalism is shaping up
- IMF and WTO still the cornerstones but BRICS is up and running
- Stateless multinational companies
- Low labor costs more and more not an advantage with the advancement of robotics
- Crucial role of the economic groupings