The Globalized Market Economy: Key challenges

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The 6 Challenges of Globalization

1. Space-time tension
2. Wealth gap
3. Digital divide
4. Volatility & Spill-over effect
5. Capital concentration
6. Global regulation challenge

1. Globalized space/Localized time

☞ **Globalization is the death of distance:** ***the world is my neighbor***

But whereas one gets access to anyone anywhere, time pressure is mounting everywhere

Tyranny of short term (DB)

☞ **Reconciling *market time* and *social time*?**

The global tyranny of short-term

- ☞ 1945-1980: long-term economic planning (in both market economies and socialist regimes!)
- ☞ 1980-2013: High volatility (exchange rates, ST capital flows, stock markets, commodity prices, currency and debt crises…)

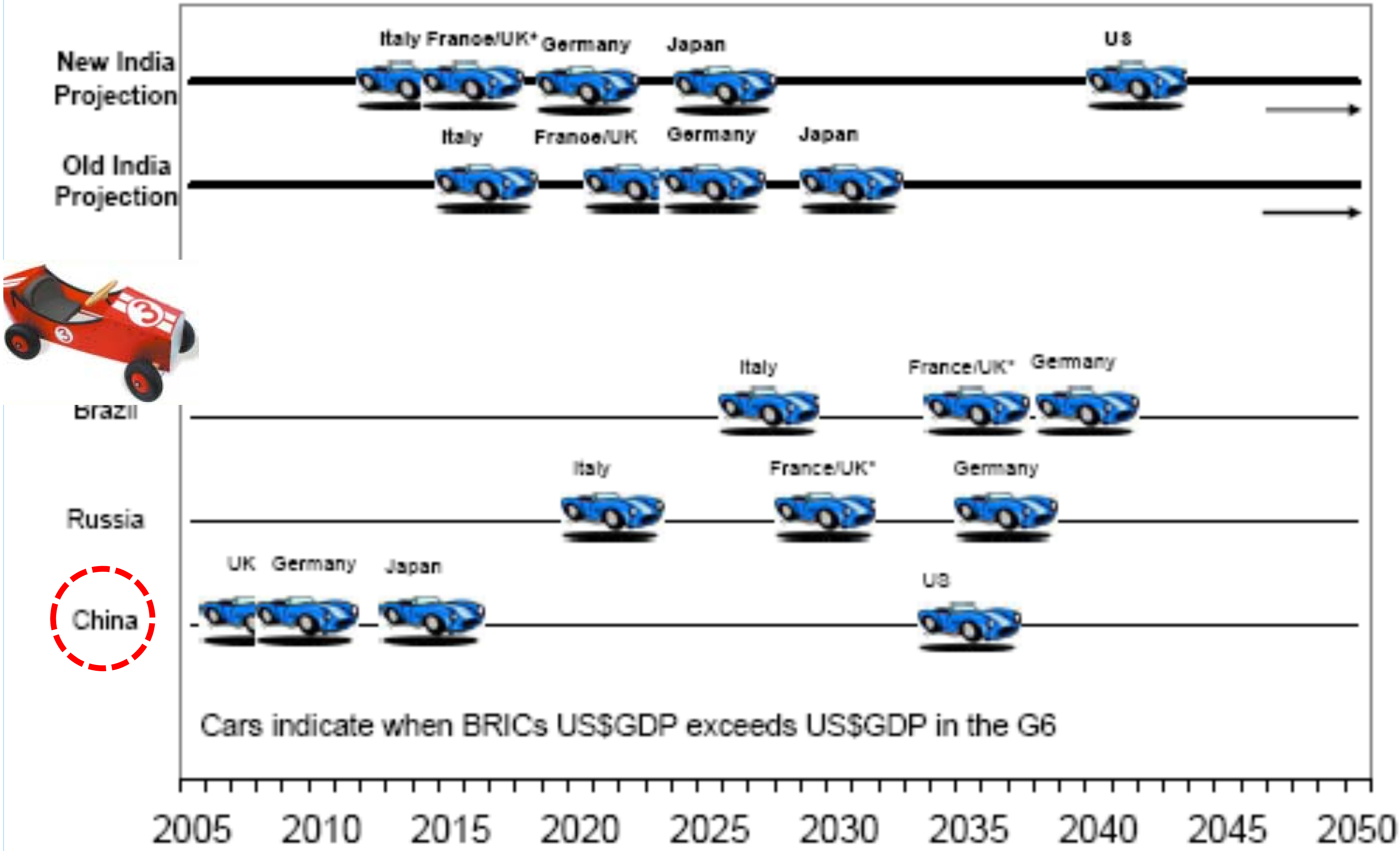
- ➢ In the 1970s the average holding period for U.S. equities= about seven years; now it’s more like seven months.
- ➢ “hyperspeed” trading holding stocks for a few seconds accounts for 70% of all U.S. equities trading. Often, only 10% of trades comes from institutions looking for LT investment: “flash crash” of May 2010!

2. Bridging the Wealth Gap?

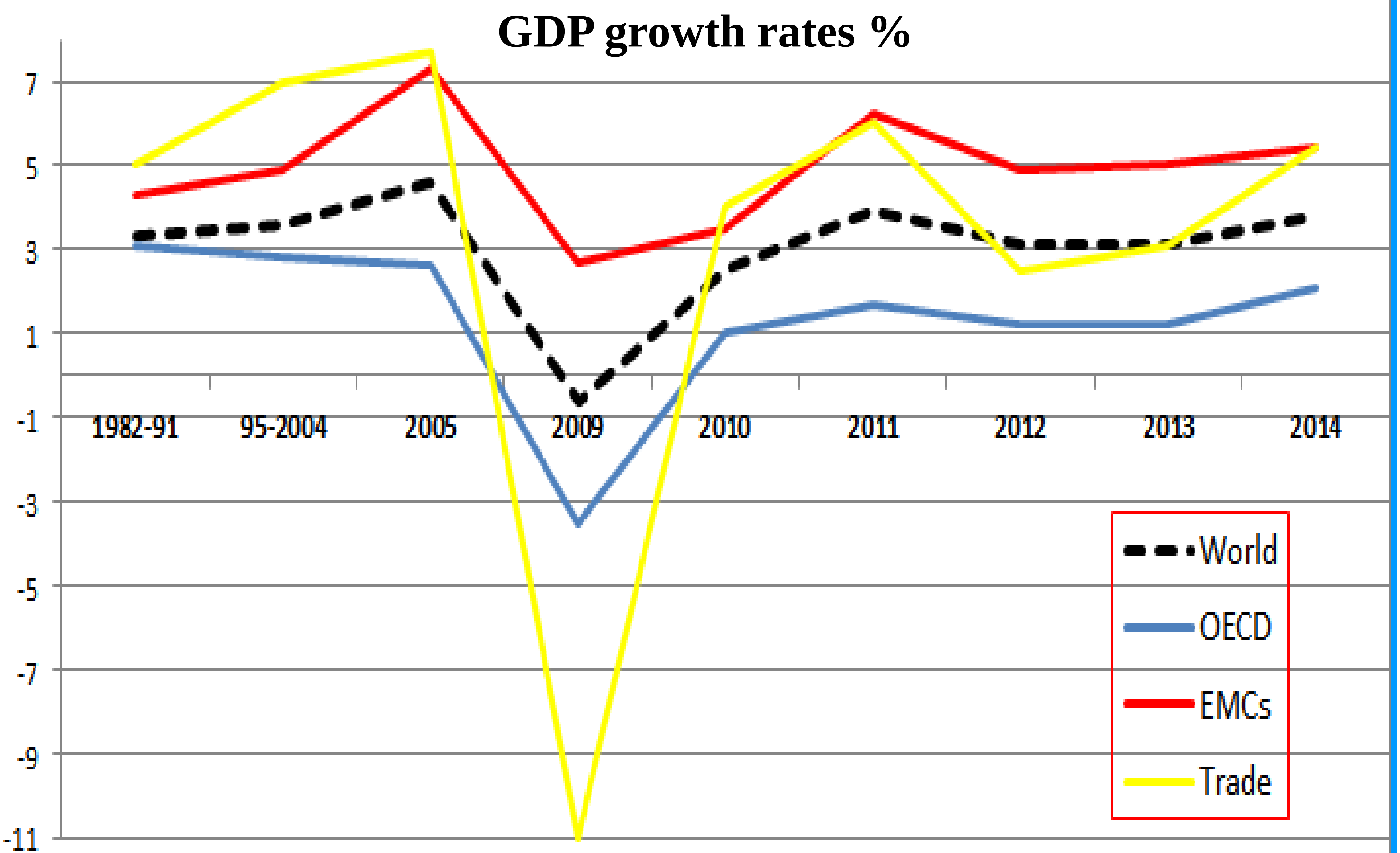
No wide-ranging convergence between the developing and the developed worlds

The BRICS are an artificial conceptual construction; thinking in acronyms tends to lock analysts into a global view that is simplistic

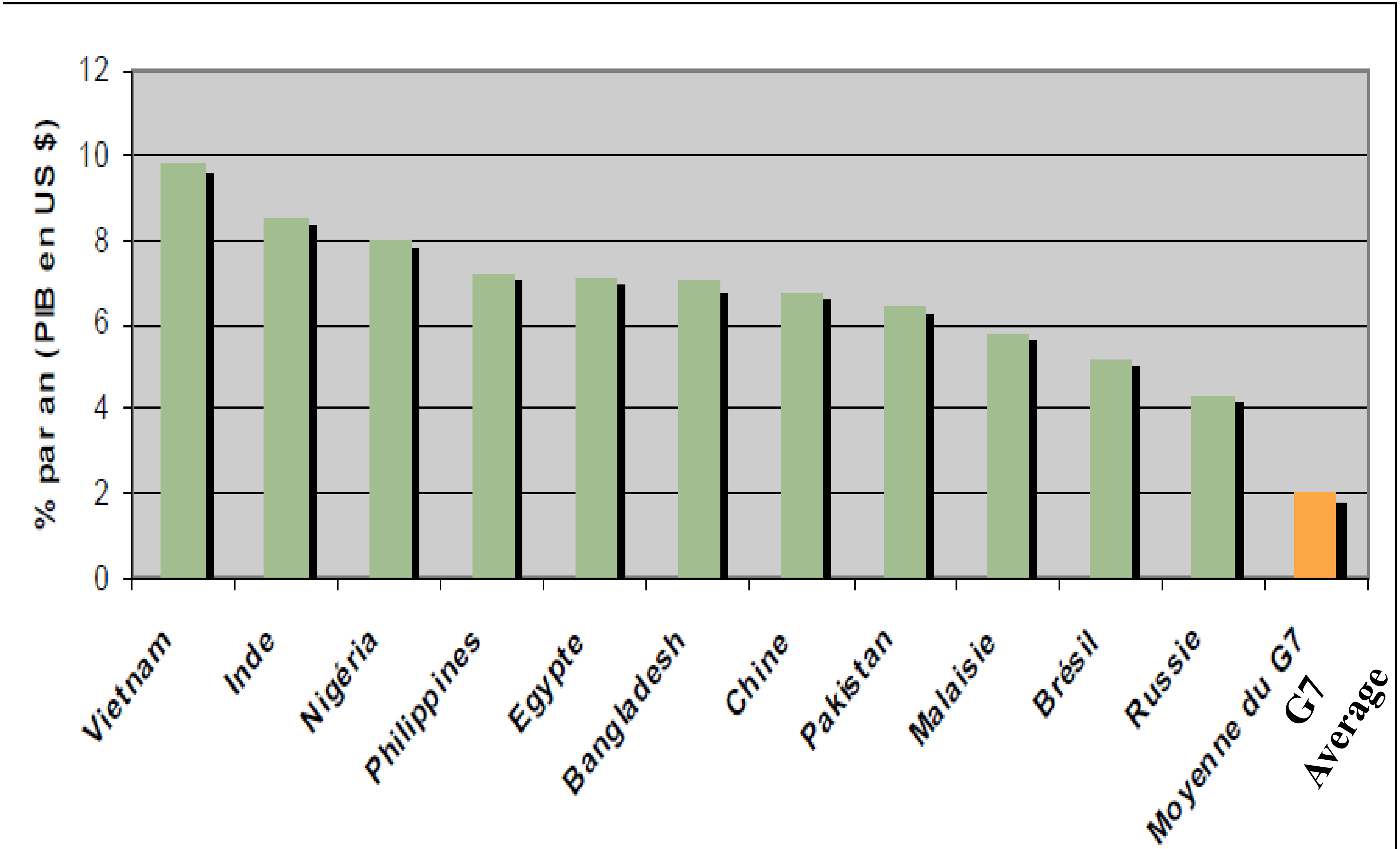
The BRIC's catch up process ?



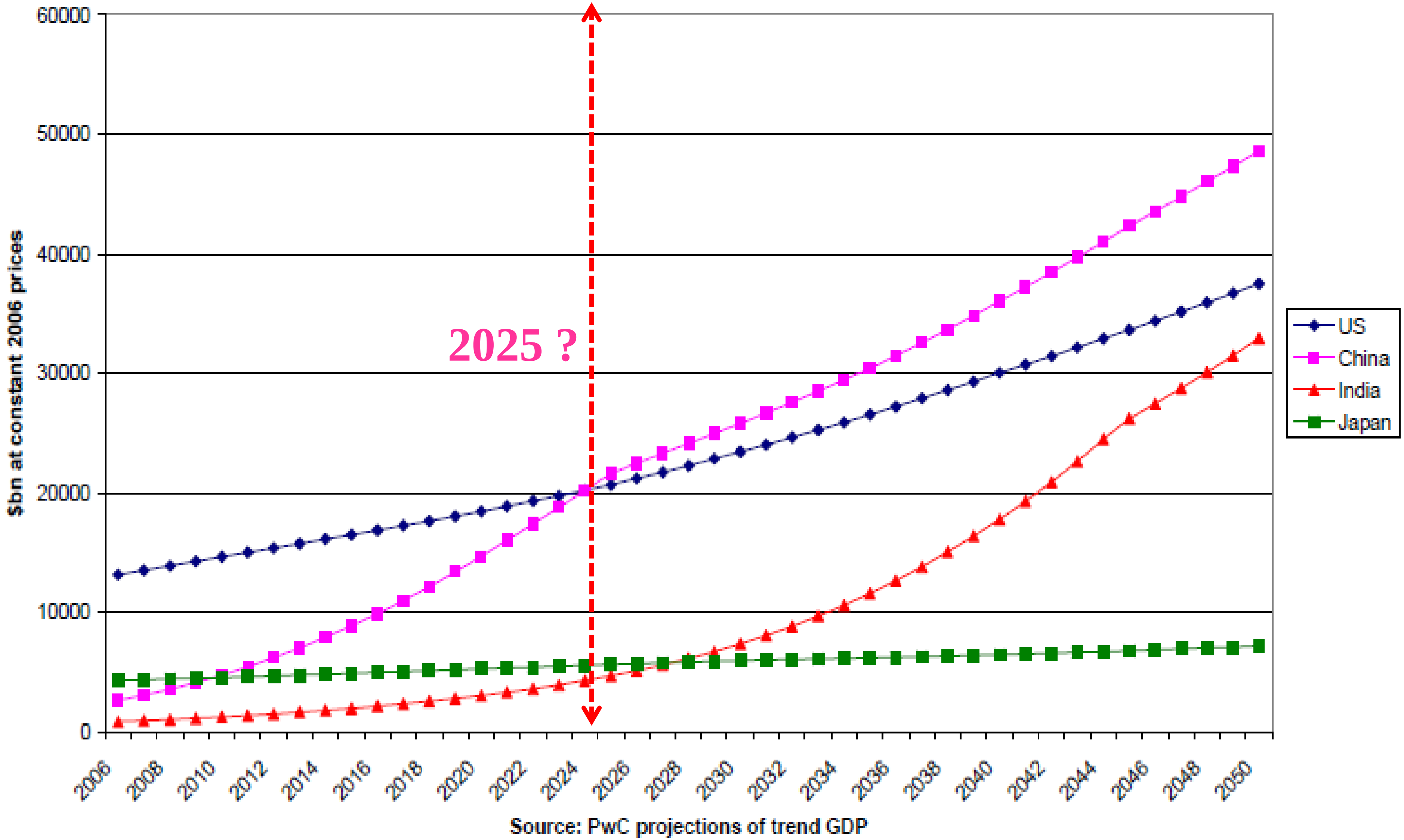
Global Crisis= Spill-over effect= volatile & aenemic growth



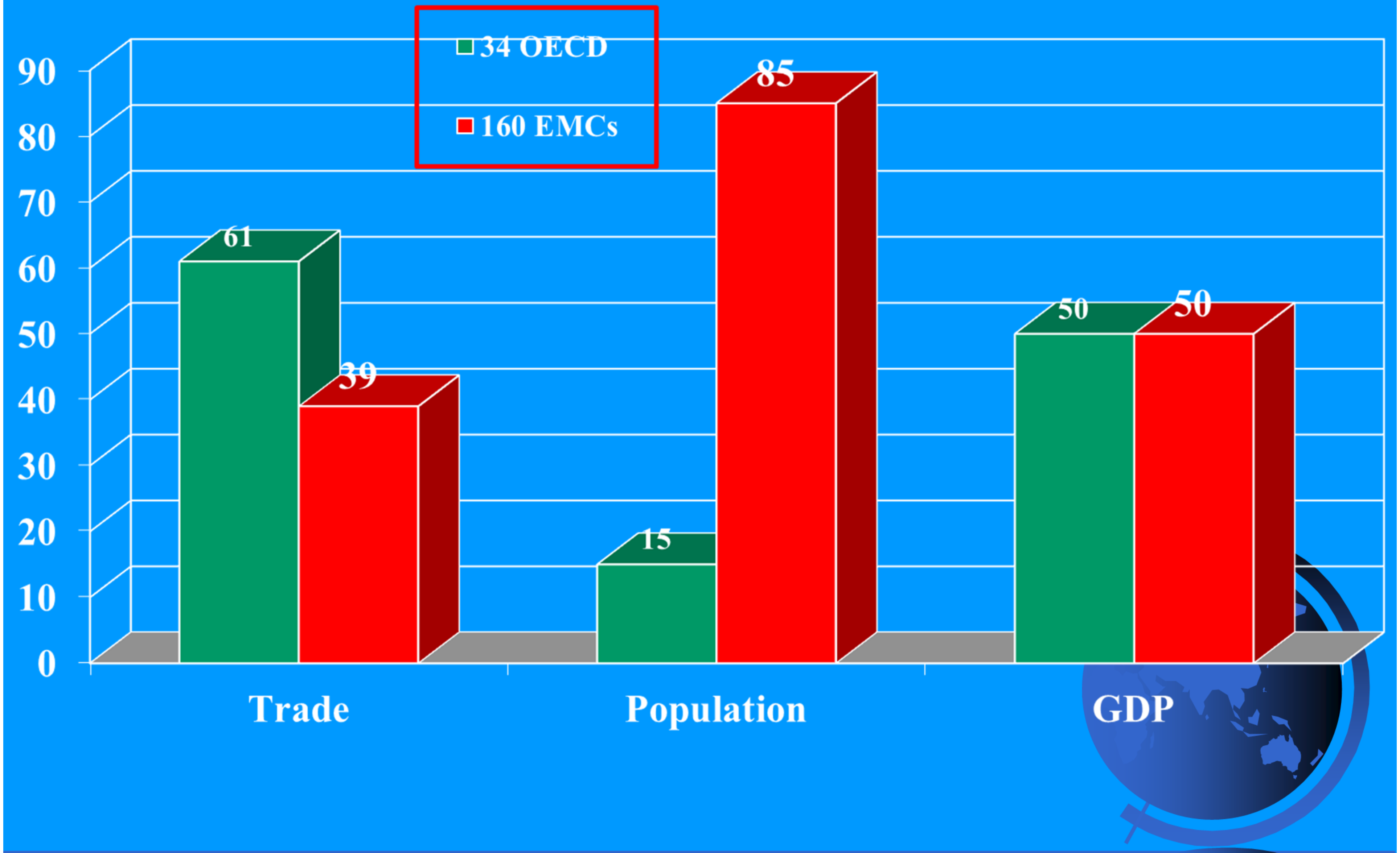
Projected real GDP growth rates (2010-2050)



Projected size of global economies 2006-2050 (GDP at market exchange rates)



Share in GDP, trade and population %

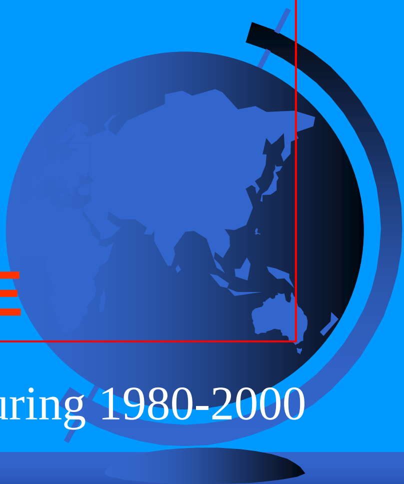


Source: IMF/WEO

The poorest countries: >25% of world population = **<$730/year** or **$2 /day**

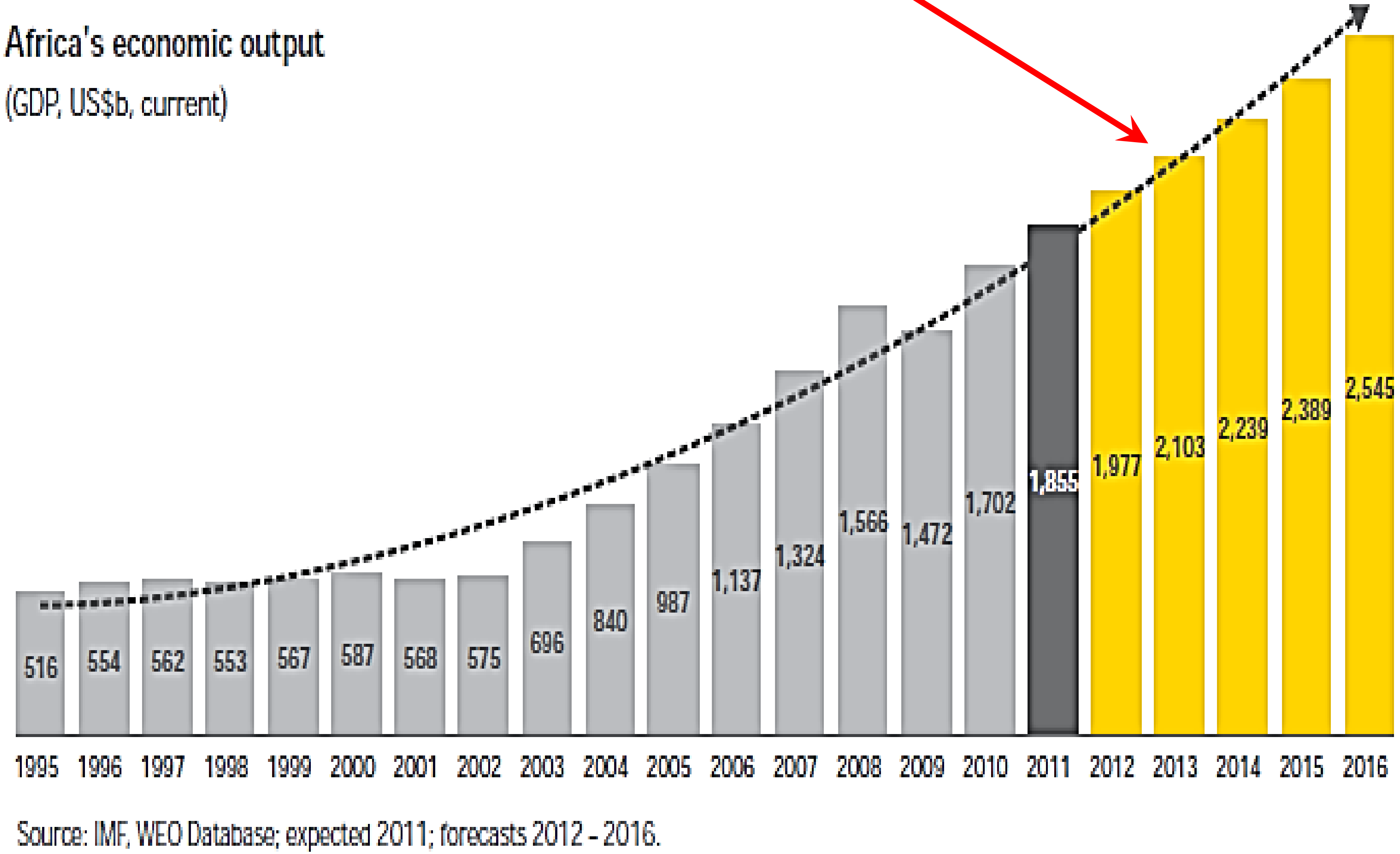
- ERITREA
- CAR
- SIERRA LEONE
- MADAGASCAR
- ETHIOPIA
- TANZANIA
- GUINEA
- GUINEA-Bissau
- CONGO (DEM. REP.)
- BURUNDI

- LIBERIA
- LAO
- TIMOR
- MALAWI
- MOZAMBIQUE
- MALI
- RWANDA
- TOGO
- UGANDA
- NIGER
- ZIMBABWE



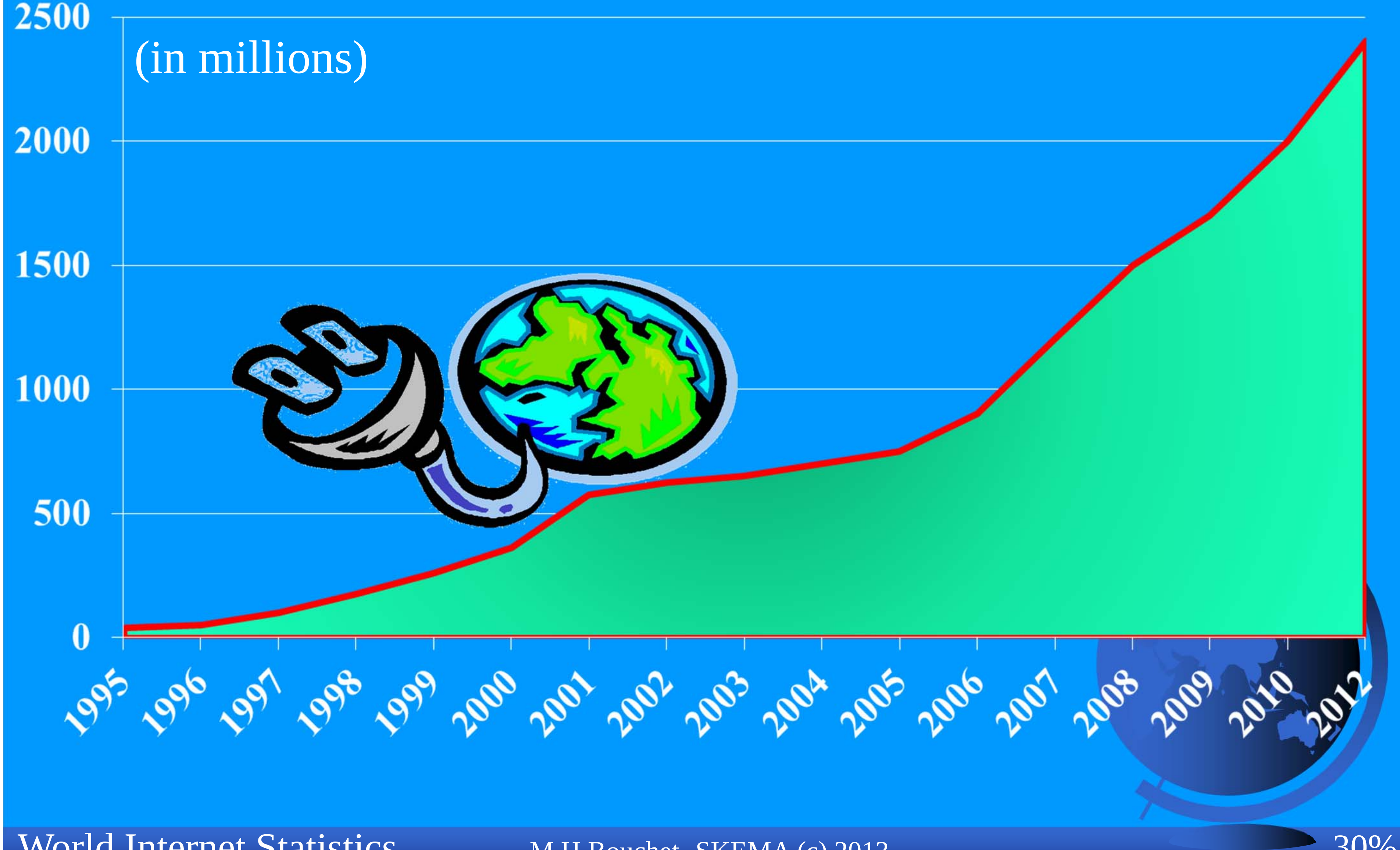
Residents of poorest countries experienced almost no real income growth during 1980-2000

The whole **African** continent's **GDP = Brazil**'s GDP



3. The "Knowledge Society" and the digital divide

How many people are *online* throughout the world?



The two-tier global economy

- Those who are kicking into e-gear… and those who are still struggling with getting hard-wired phones into houses!
- Around 1/3 of the world population uses the Internet, and 3/4 of them live in industrialized countries!
- Tokyo and NY’s Manhattan district alone have more telephone lines than the whole of Africa.

Internet & NTIC:

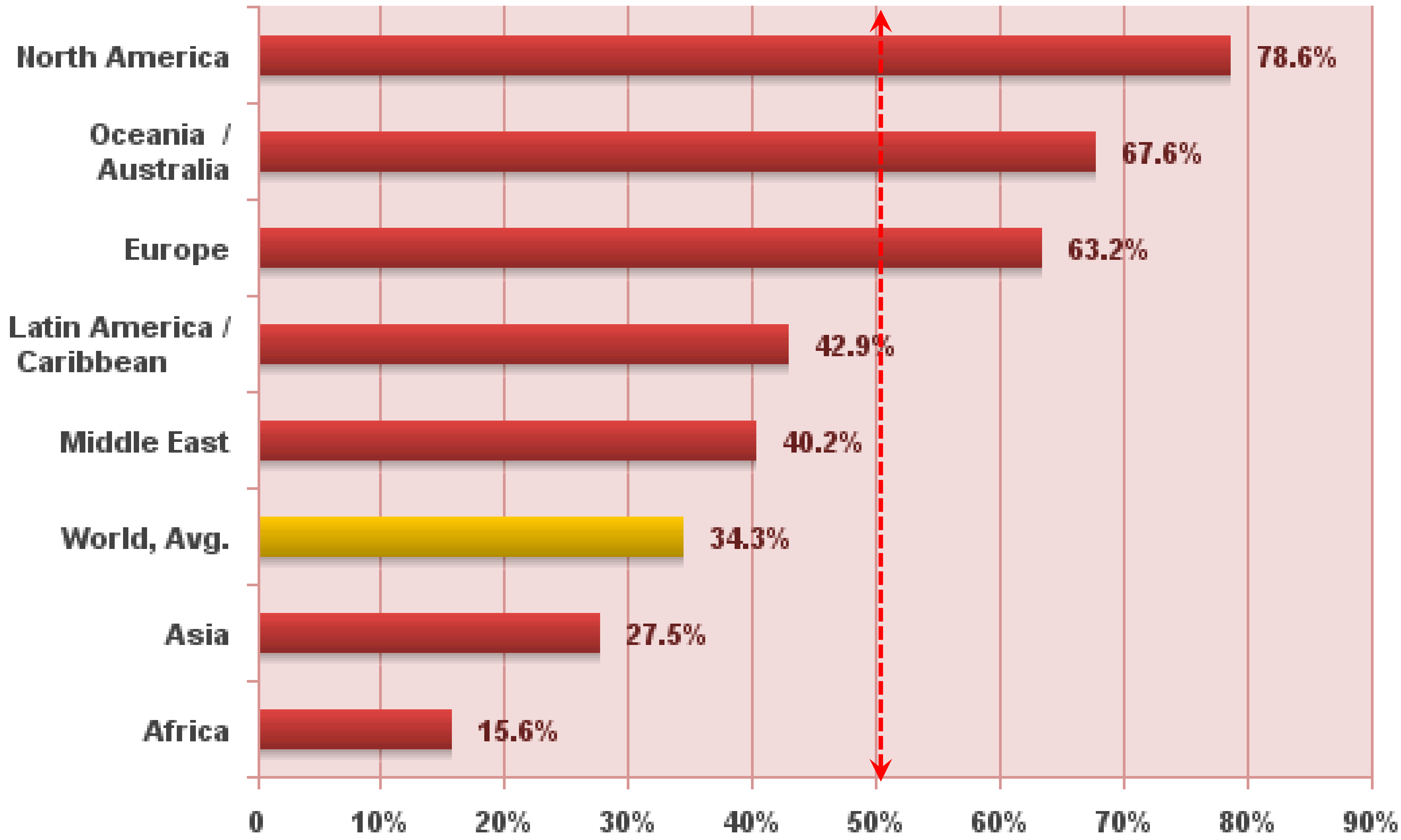
Major catalysts for productivity, growth and jobs!

- 2,4 billion people connected to the Internet
- Internet-related consumption and expenditure account for 3,4% of GDP (larger in Sweden, UK, Korea, US, Germany, India)
- SMEs get a performance boost from Internet: higher productivity, hence higher competitiveness
- Internet drives net job creation as well as economic modernization = **2,6 jobs created for one job lost**

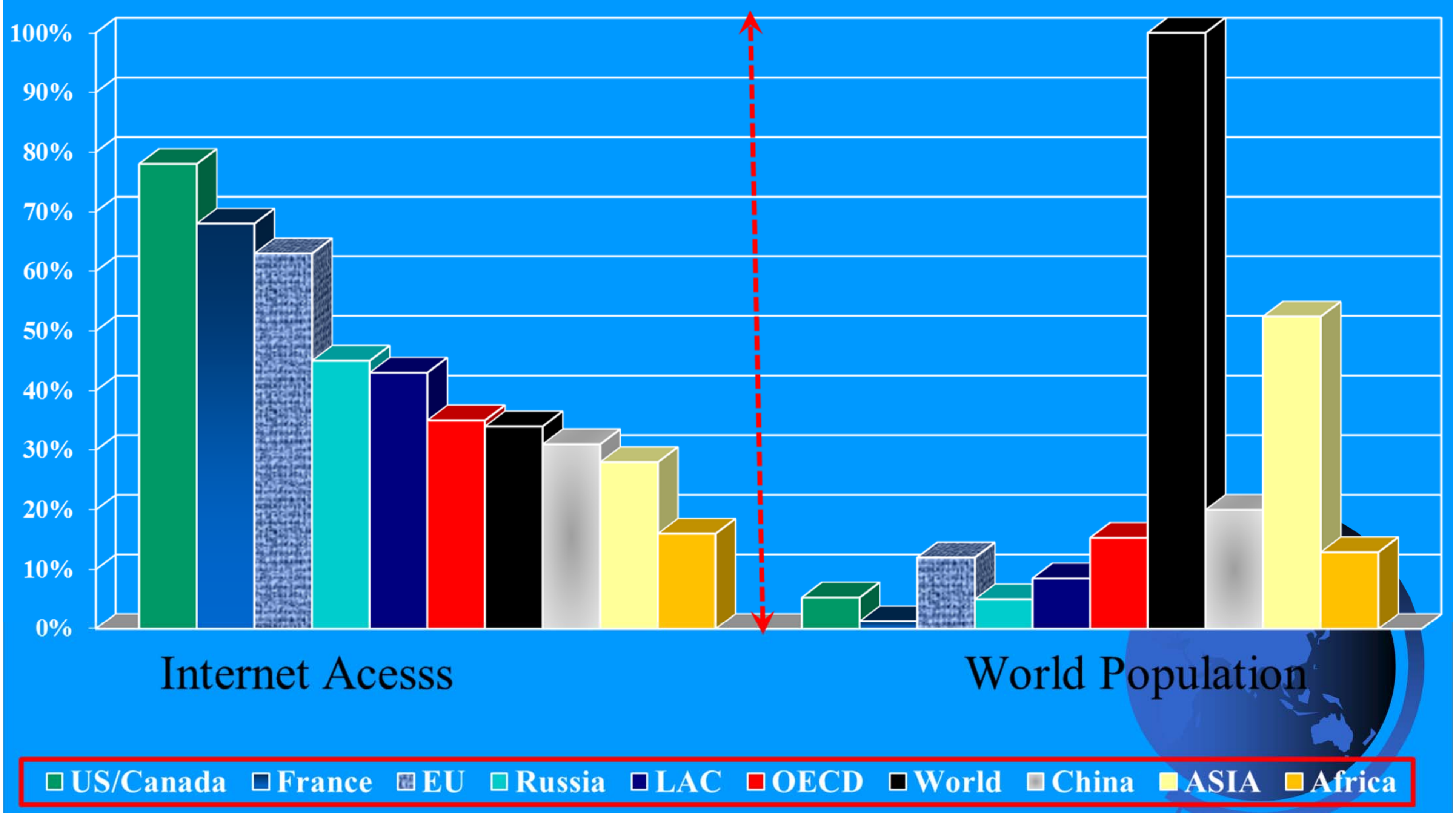
- **Challenge:** leveraging the Internet to promote human capital and sustainable growth!

McKinsey 2012 study of 13 mature economies (including EMCs)

World Internet Penetration Rates by Geographic Regions - 2012 Q2

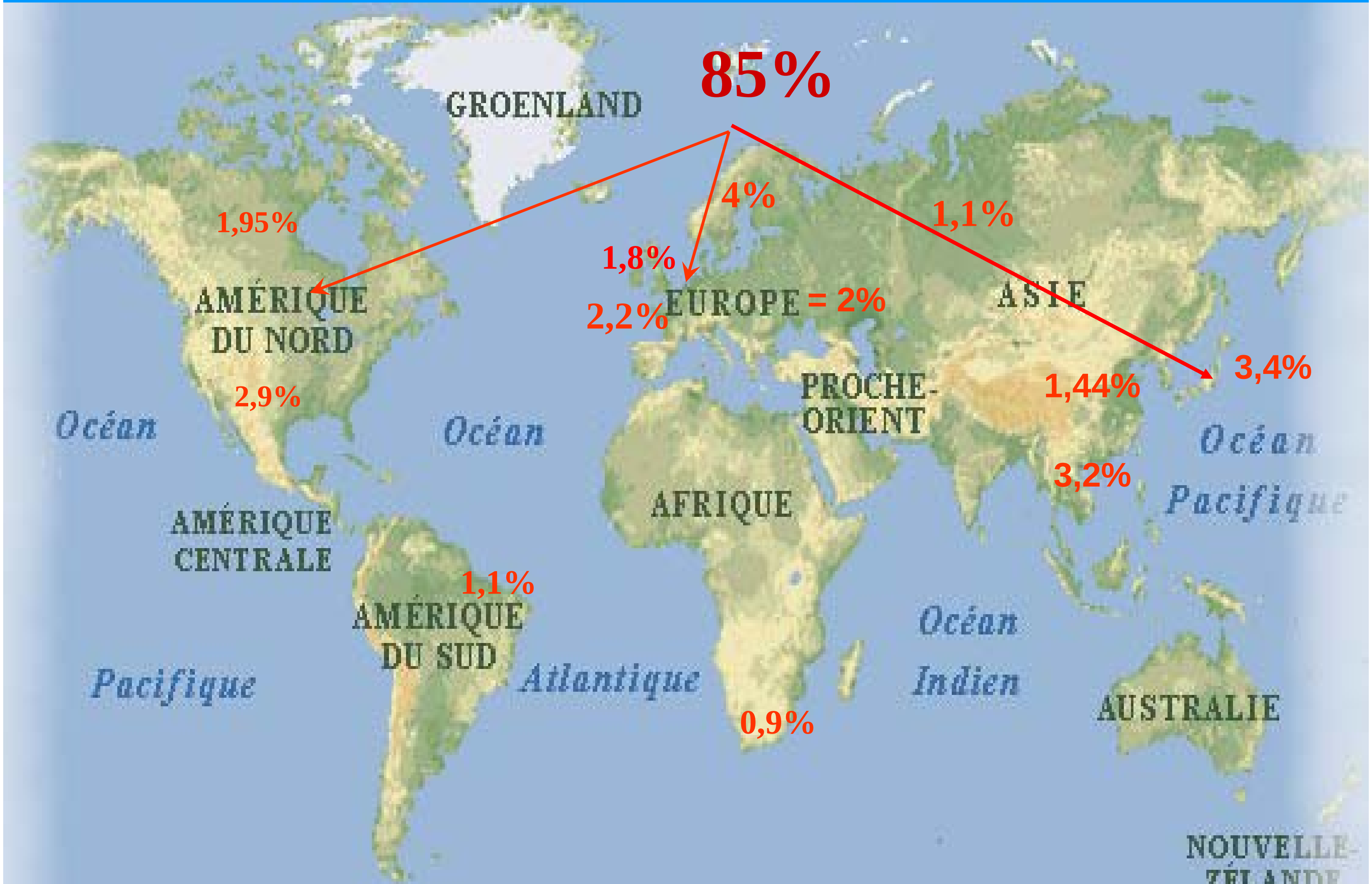


The "Knowledge Society"



Digital Divide: R&D/GDP%

$1100 billion= 1,5% average



4. Volatility
& Spill-over effect $ € £

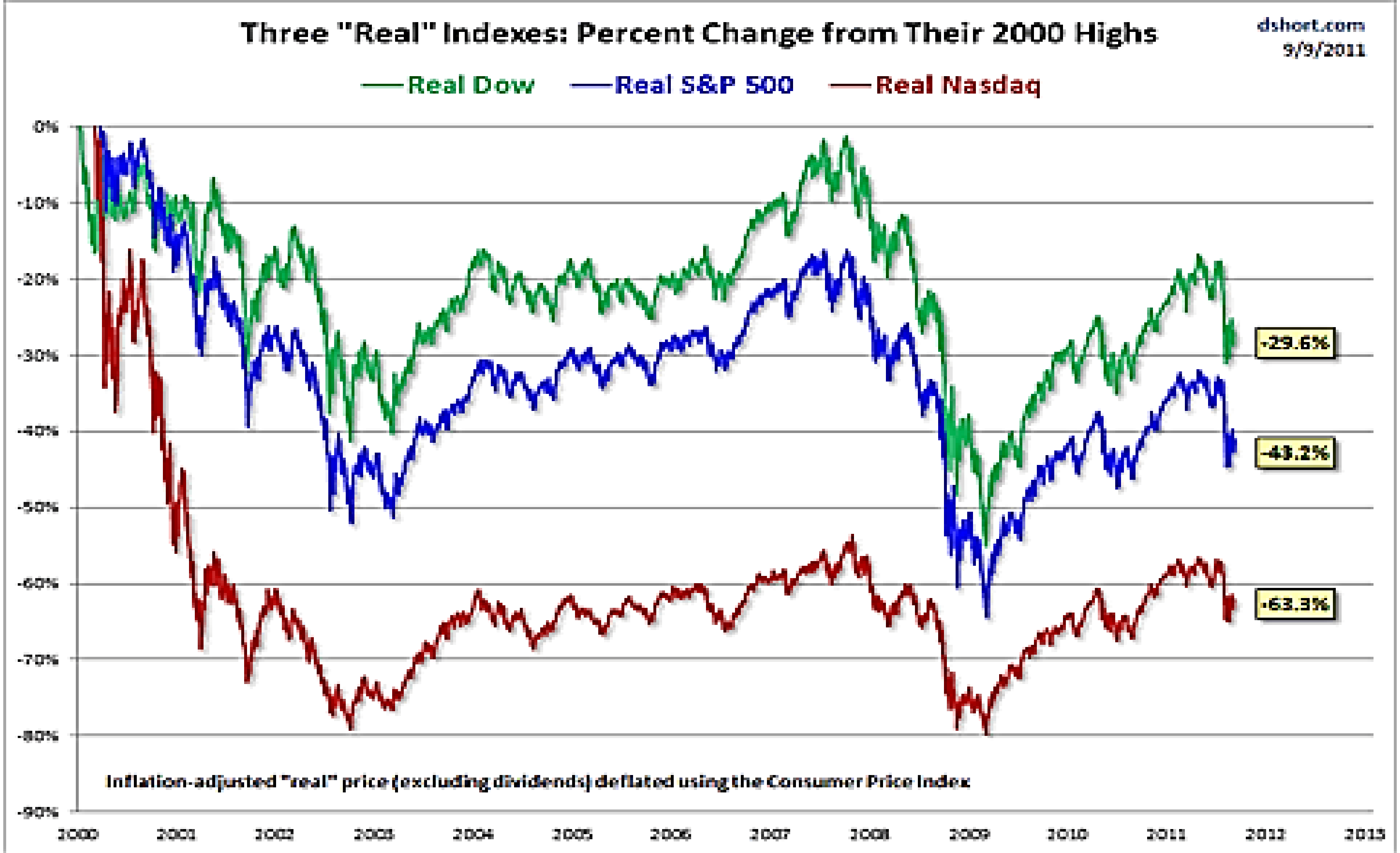
Trade and financial liberalization (current + capital accounts) increase vulnerability to exogenous shocks and global crisis contamination

Globalization = Rising volatility?

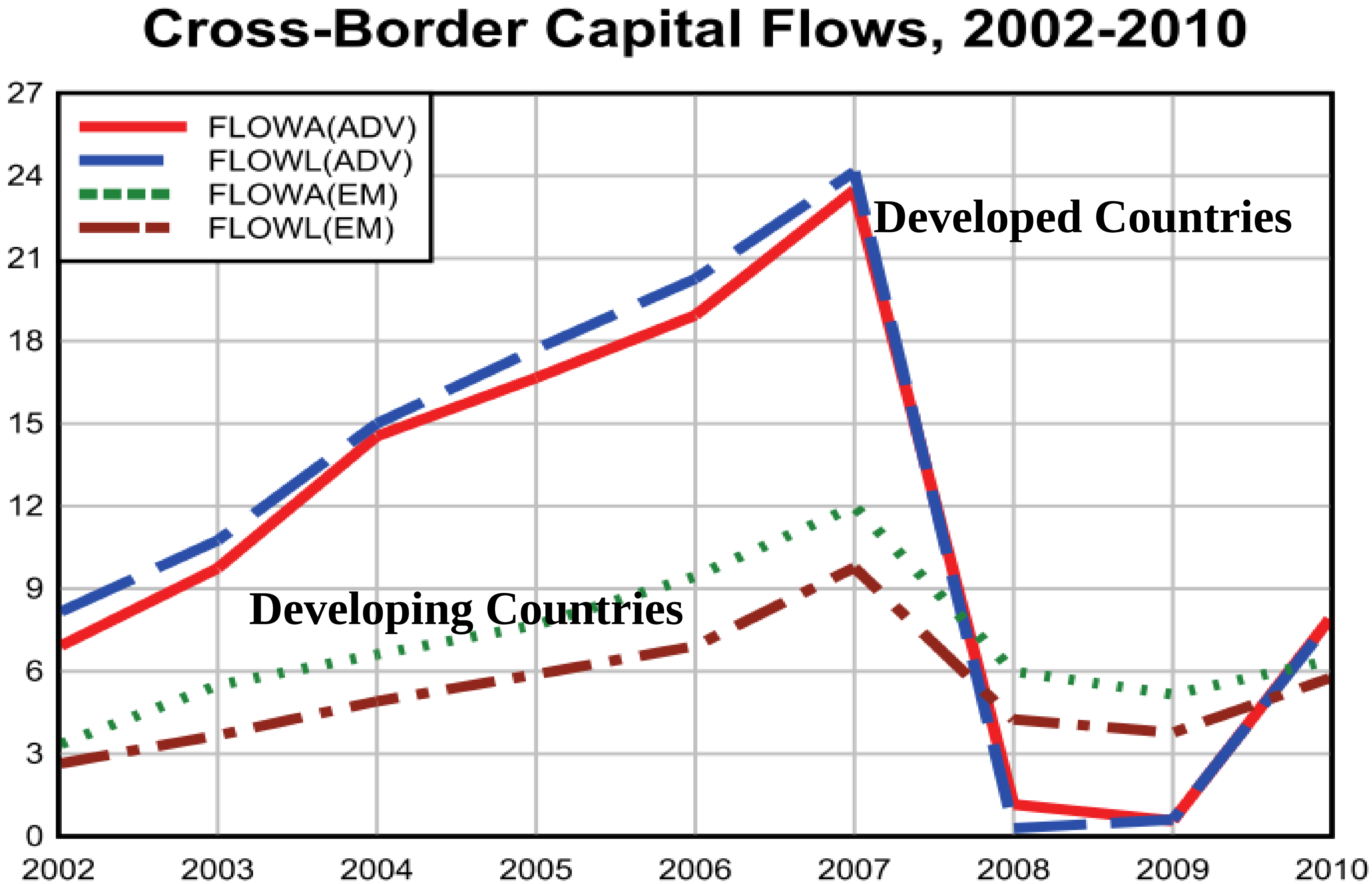
☞ Why has **volatility** risen so much since the 1970s-80s?

1. Sharp increase in worldwide inflation that followed the oil shocks
2. End of the Bretton Woods agreements (1971-73)
3. Global deregulation of financial markets and capital flows
4. Rapid spread of NTIC
5. Hedge funds and offshore financial centers
6. Inflation impact of ***Quantitative easing***?

Global markets, volatility & spill-over effects

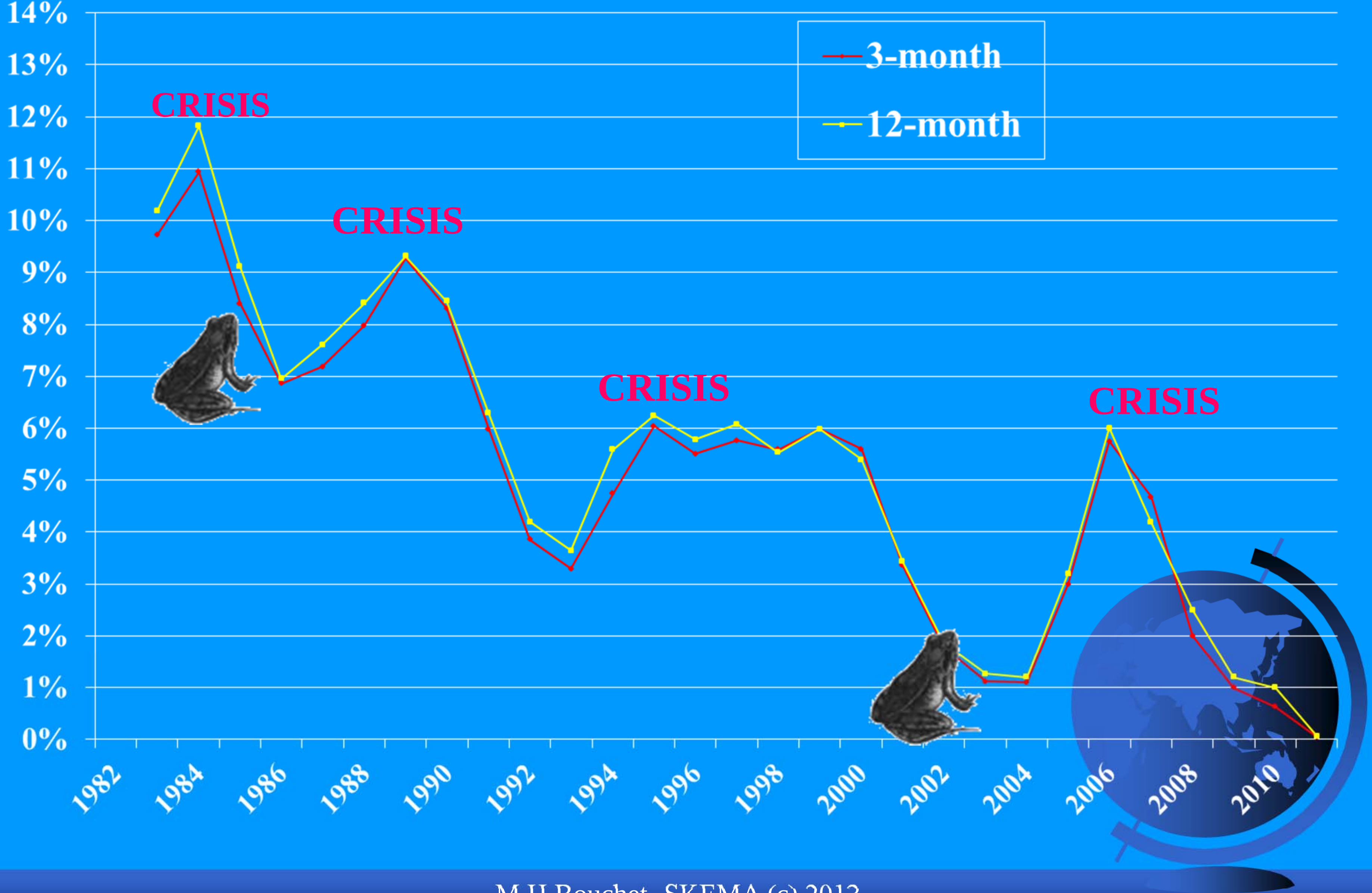


Ratio of international financial flows to GDP %

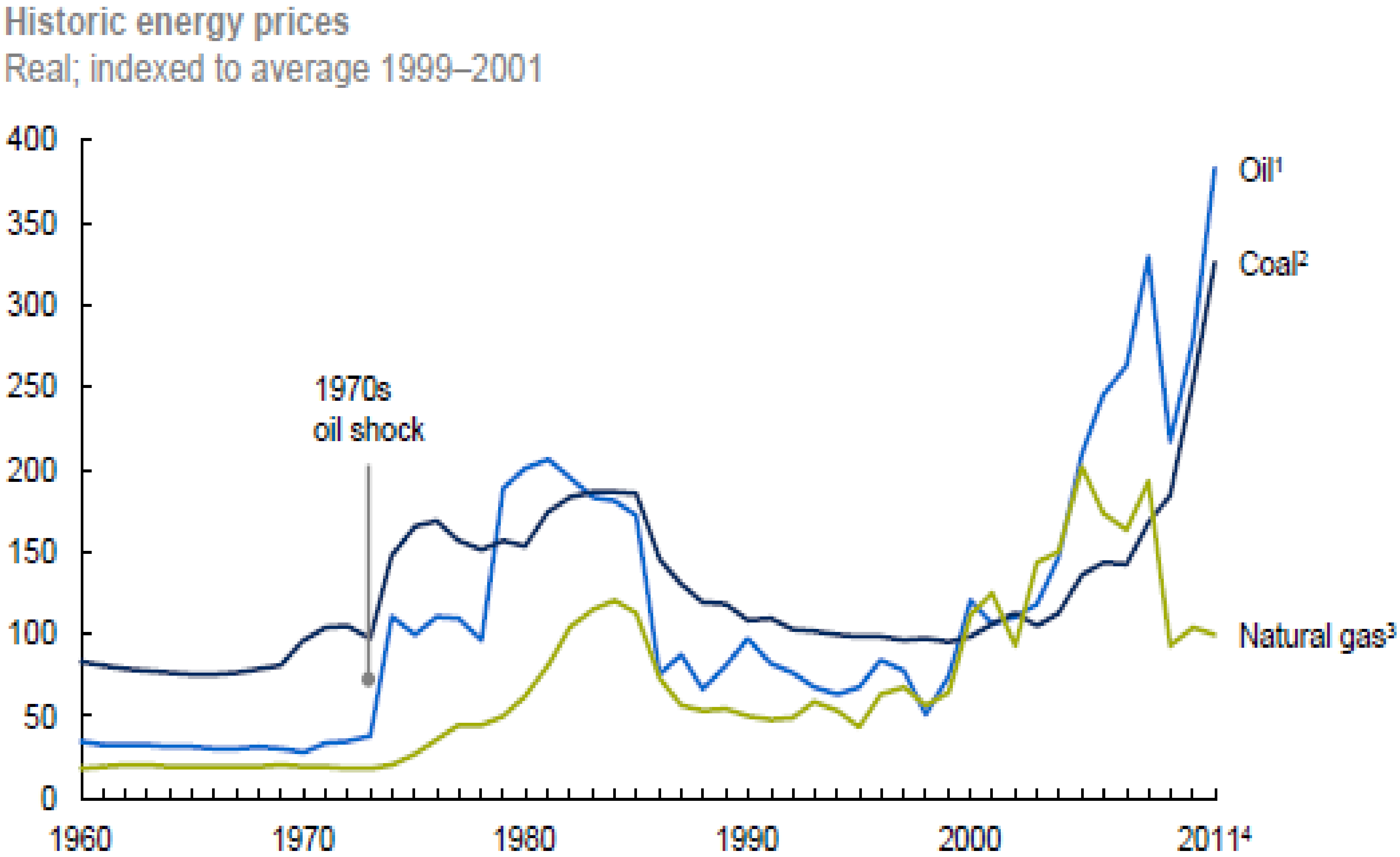


P. Lane, BIS Dec. 2012

Evolution of Euro-$ LIBOR



Rising volatility of global commodity prices due to higher production costs, increasing EMCs demand and speculative trading



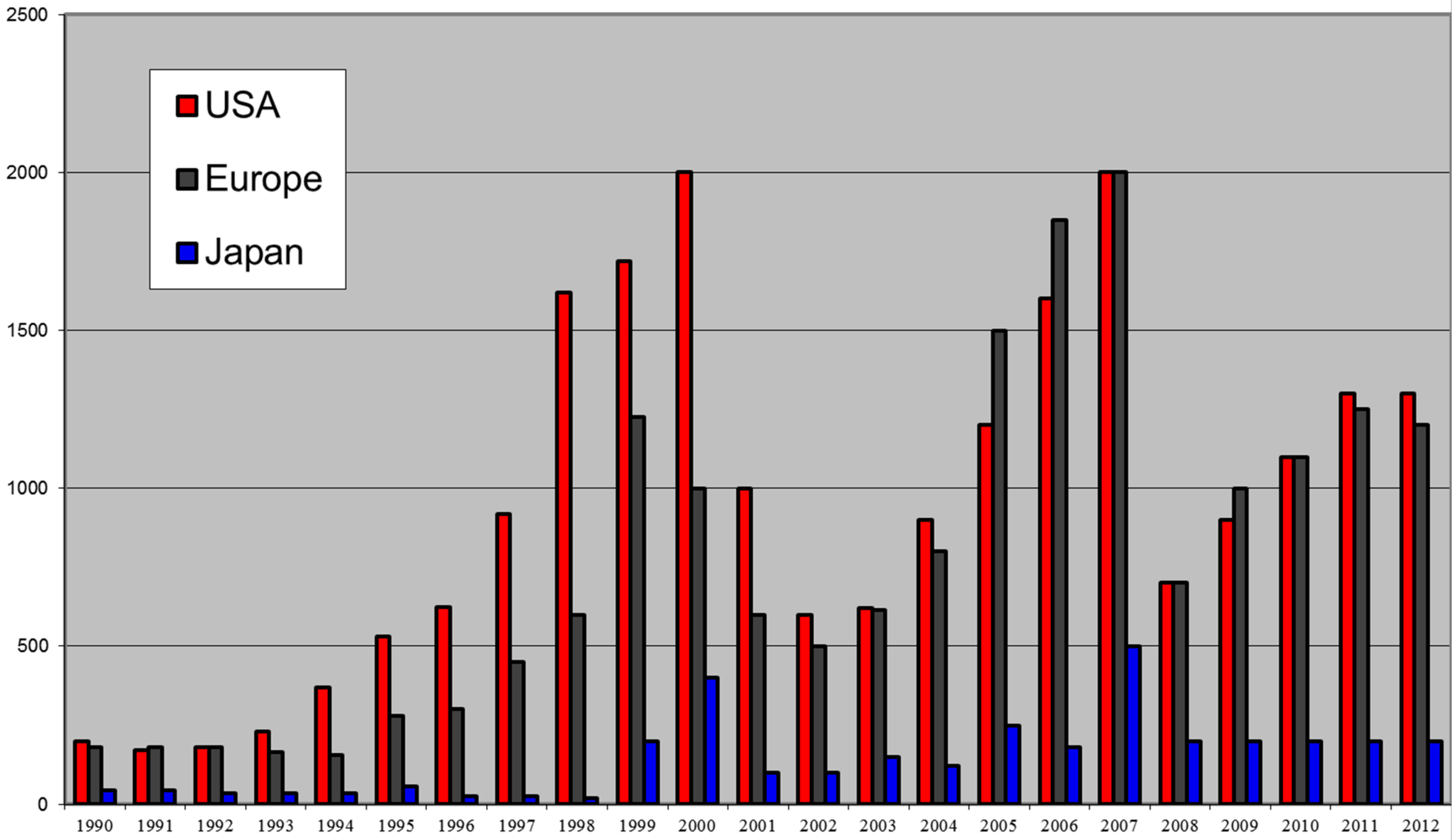
Source: IMF & McKinsey 2012

4. Bigger = Better?

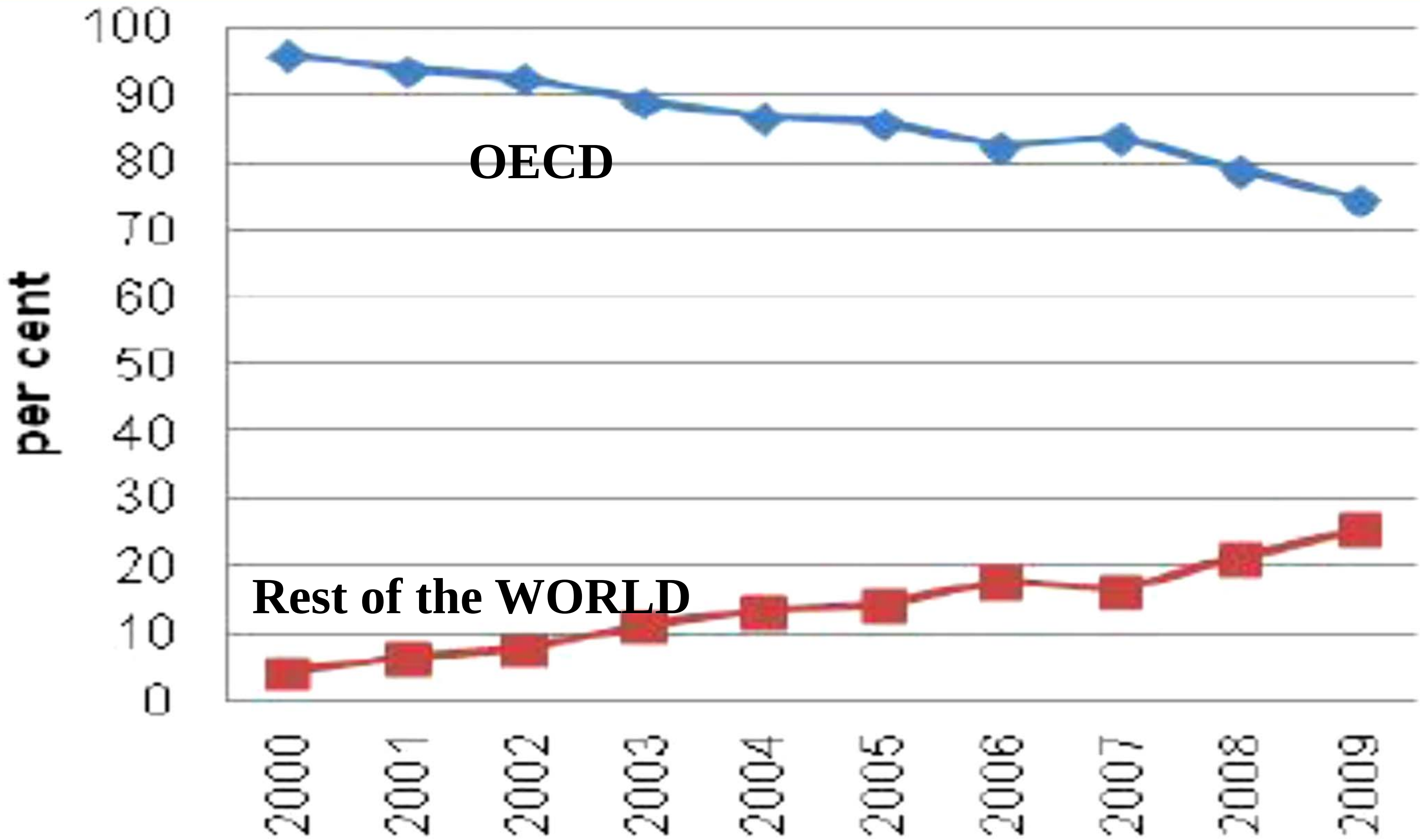
Capital concentration = Eroding competition...

☞ Companies' endless quest for profits and keen market competition

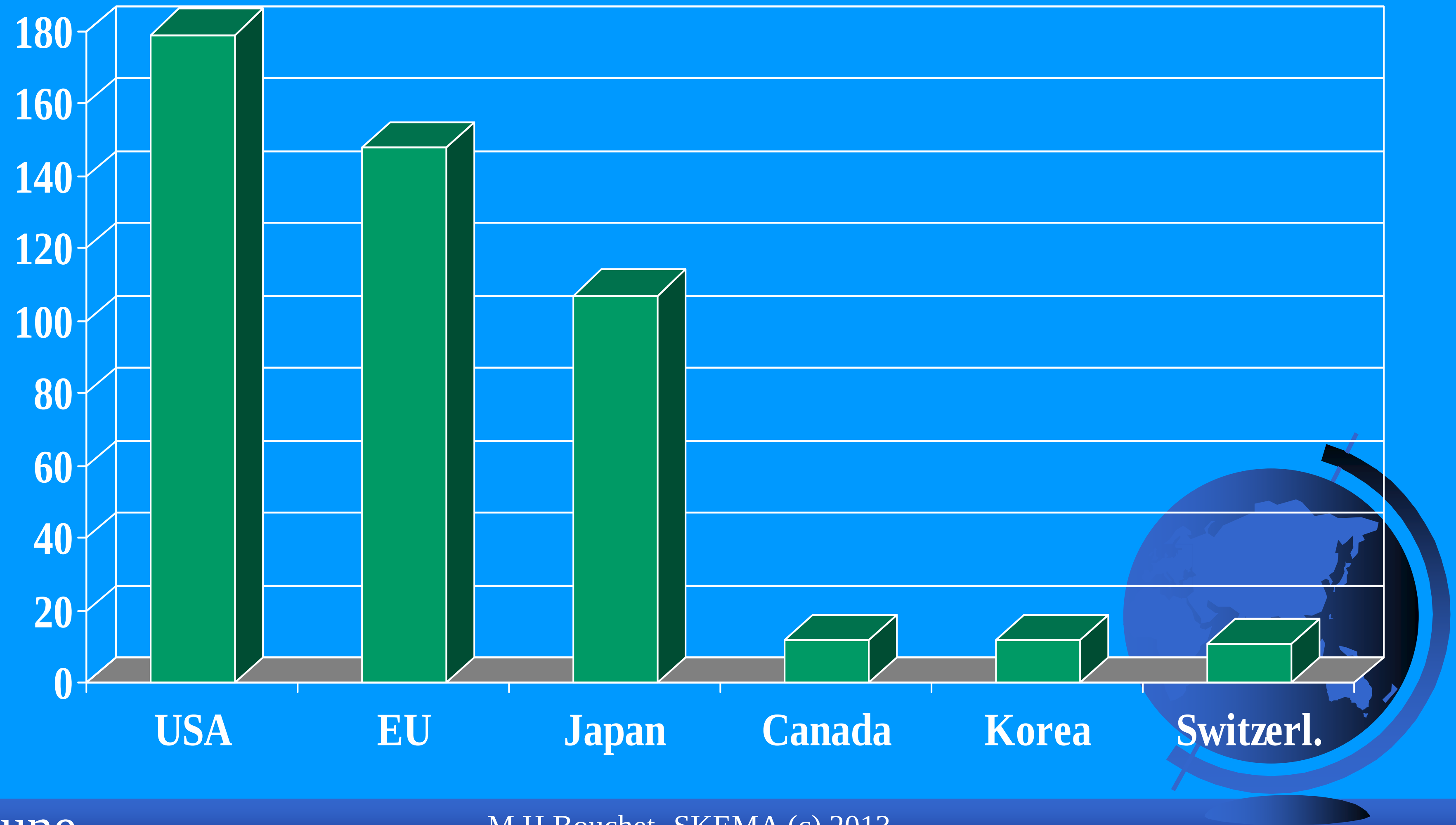
Global M&As 1990-2012 (in US$ billion)



Shares of global M&As and FDI deals by nationality of acquirer 2000-09



Nationality Breakdown of 500 Largest MNCs worldwide



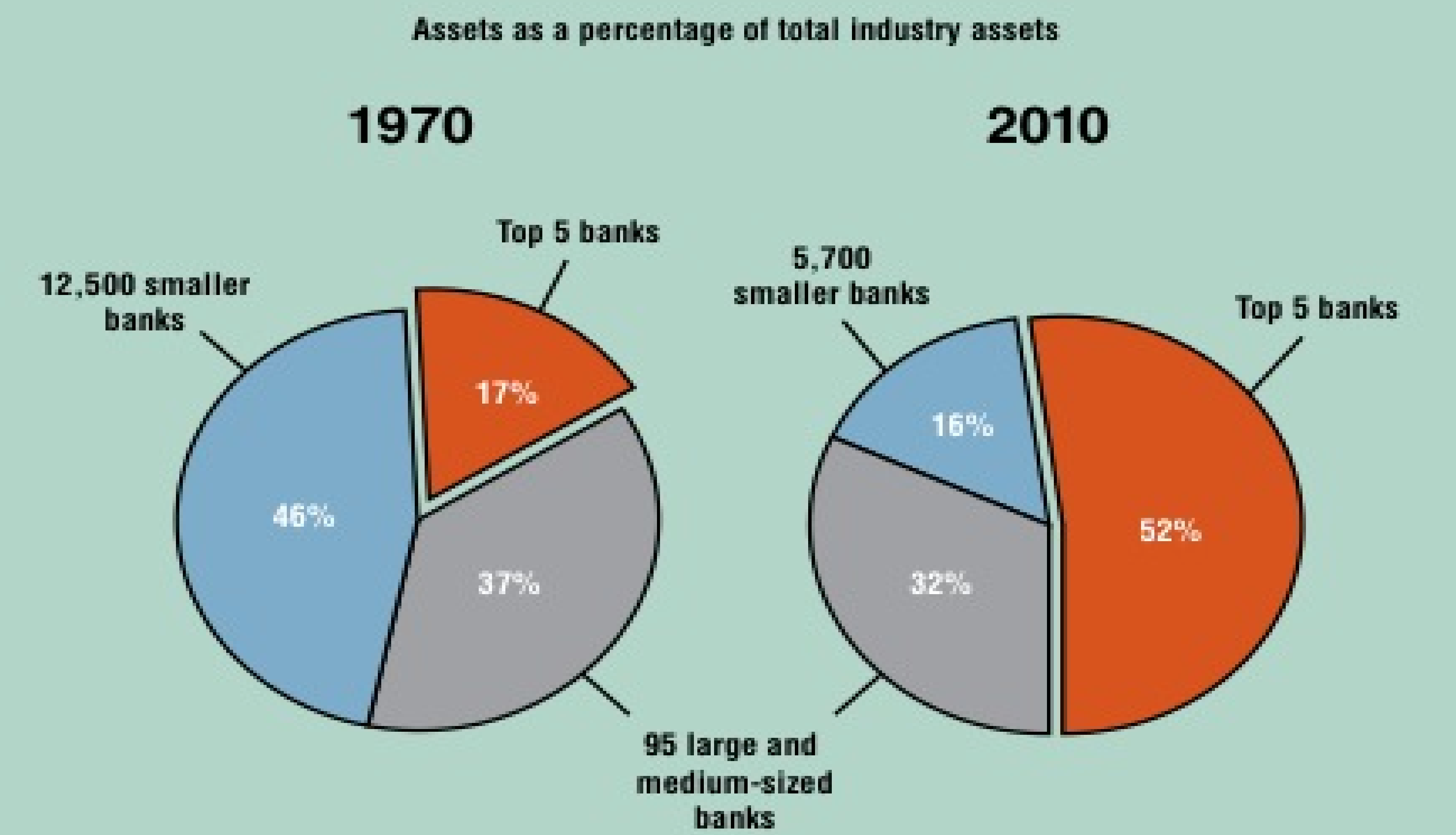
Fortune

The « winner takes all »

Industry	Market share of the dominant players	Names of the dominant players
Operating systems	89%	Microsoft
Browser	75%	Microsoft
Search engine	54% **2012= 66%**	Google
Personal computer	54%	HP, Dell, Acer, Lenovo
Mainframe	90%	IBM
Optical disks	50%	Sony
Cell phones	72%	Nokia, Motorola, Samsung
Smart phones OS	65%	Symbian
GPS systems	66%	Garmin, TomTom
Digital map	99%	Navteq, TeleAtlas
PC microprocessors	93%	Intel, AMD
Networks systems (routers)	90%	Cisco Systems, Juniper
Custom chips	70%	TSMC, UMC
Database software	84%	Oracle, IBM, Microsoft
ERP software	41%	SAP, Oracle
Large long range aircraft	100%	Boeing, Airbus
Mobile Service Satellite	50%	Inmarsat
Satellite launcher	55%	Astrium
Nuclear Power	53%	Areva
Biotechnologies	50%	Amgen, Genentech

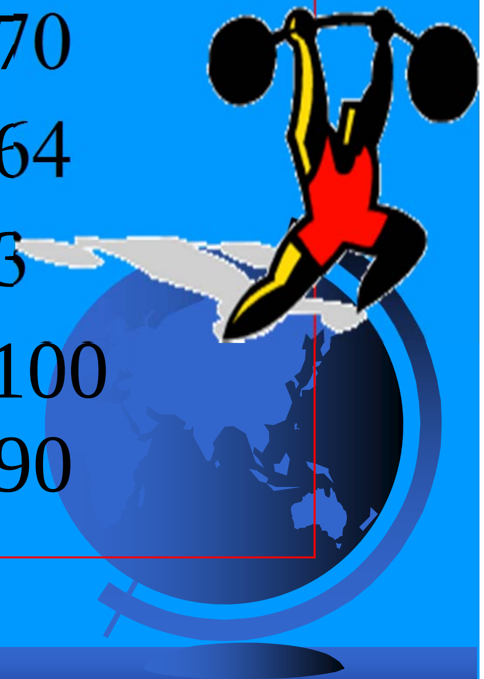
Source: Annual reports, press release, Reuters , Blooberg, MedAd news, IDC, Gartner group

US “Too-big- to-fail” (TBTF) banks—or “systemically important financial institutions,” = SIFIs



"Global" Companies

	Foreign sales	Foreign Employees	N° of countries
AF/Lufthansa	61%	37%	92
Ford	38%	54%	137
Coca-Cola	66%	85%	200
BASF	75%	56%	170
IBM	57%	52%	164
Microsoft	57%	32%	63
GE	45%	45%	>100
SIEMENS	75%	60%	190



Global Company

WAL*MART®

Largest private corporation on the planet (after Exxon)

- **2013 sales = $466 billion**
- 245 million customers/week
- Objective: to double sales within five years!

- = 33% of Canada's GDP
- = 100% x Argentina's GDP
- = 130% x Poland's GDP
- 2 x Thailand's GDP
- 5 x Morocco's GDP
- 20 x Tanzania's GDP

Global company: South Africa, Central America, Latin America, China

5. Market forces and non-state actors crowding out the state?

« The diffusion of power away from governments is one of this century's great political shifts » : rising role of non-state actors in the cyber domain (Joseph Nye)

•Global markets rate and rank nations like any private business according to market-based principles of openness and efficiency

Change of paradigm

- ☞ Since the *Westphalia treaty* of 1648, the State has always been defined by its sovereignty over a territory, with its regalian power = army, justice, and security
- ☞ Since the 1980s, the market economic system is more and more independent from the political system
- ☞ Since the 1990s, the financial system cut loose from its economic base, hence dwarfing it
- ☞ Today, the Nation-state has lost much of its power: cybercrime, migrations, information flows, capital flows, global mafias…

Shrinking role… from key actor to facilitator

End of the monopoly position of the State, as:

- guardian of national security: *end of bipolarity and cold war*
- provider of information: *Internet*
- main economic driving force in growth and development: *economic liberalization*
- main employer & provider of public services: *privatization*
- deciding agent in economic policy issues: *caught between market forces and the IFIs' guidance*

Business Freedom Index 2013
Heritage Foundation (10 indicators)

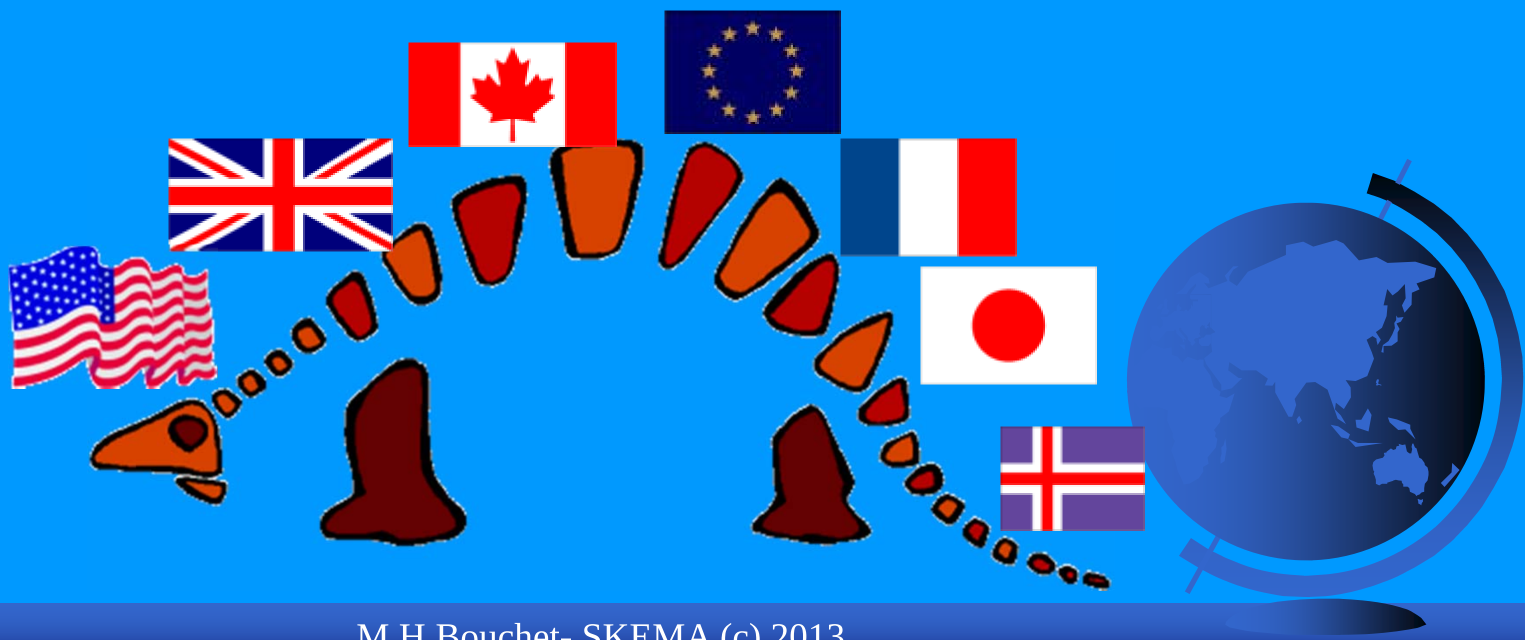
1. Hongkong
2. Singapore
3. Australia
4. New Zealand
5. Switzerland
6. Canada
7. Chile
8. Mauritius
9. Denmark
10. USA
14. UK
19. Germany

- 34. Korea
- 50. Mexico
- **62. France**
- 74. South Africa
- 100. Brazil
- 119. India
- 136. China
- 139. Russia
- 175. Zimbawe
- 176. Cuba
- 177. North Korea

6. Challenge of global regulation

☞ Political system is nation-based while the market economy is globalized!

Is the State doomed to death given the challenge of free-market forces and transnational flows?



Global market regulation

- ☞ BIS (1933) & “Basel I-II-III”
- ☞ IFIs: Bretton Woods (1944): IMF/WB
- ☞ OECD (1961)
- ☞ IIF (1983)
- ☞ G7-G10-G20 & G24
- ☞ IOSCO (International organization for securities)
- ☞ IAS (International accounting standards)
- ☞ Financial Action Task Force
- ☞ Systemic Risk Board (2010)

Toward regulating the global economy?

The (modest) role of the International Monetary Fund

IMF & WORLD BANK: Two “sister institutions”

IMF

- A Managing Director : European
- 2600 employees from 150 countries
- Cooperative credit union with 188 member countries providing resources = US$750 billion.
- Crisis prevention and short-term financing of balance of payments problems with macro-economic stabilization programs
- Technical assistance
- Credit outstanding : $112 billion

IBRD + IFC + IDA + MIGA

- A President : US
- 10000 employees
- The Bank leverages its Triple A rating to issue LT global bonds
- IBRD finances LT structural reform and sustainable development policy as well as infrastructure investments
- AID finances countries with GDP <US$1065 over 35/40 years
- Capital reaches US$184 billion
- 2012 IBRD/IDA Loans = US$72 billion

What is the International Monetary Fund?

- ☞ **The IMF : an international credit union**
- ☞ Bretton Woods conference of July 1944: 45 democratic country governments set up the IMF’s **organizational structure** in its Articles of Agreement (its “Charter”).
- ☞ The Keynes/White plan was to organize a brand new framework for international cooperation
- ☞ Starts working in December 1945
- ☞ 2013: 188 member countries.
- ☞ Managing director : Christine Lagarde

Threefold aim: financing + adjustment + economic and trade liberalization

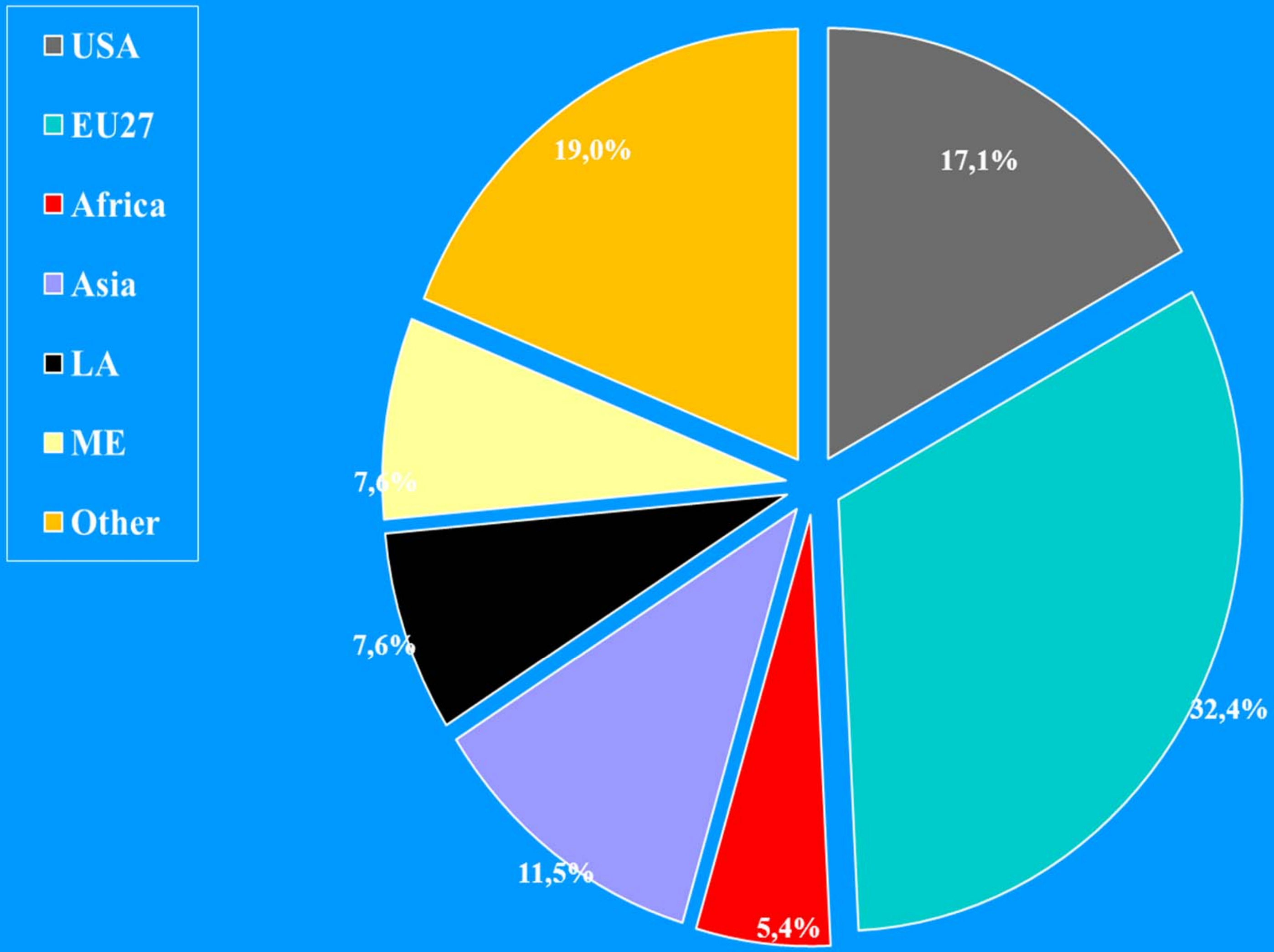
What the IMF is *NOT* doing...

- No worldwide plot to strangulate countries
- No Big Brother and "shadow" world government
- Not an international central bank controlling the global economy
- No conspiracy against the Third World
- Does not compel its members to tread a path of economic austerity (but conditional financing!)

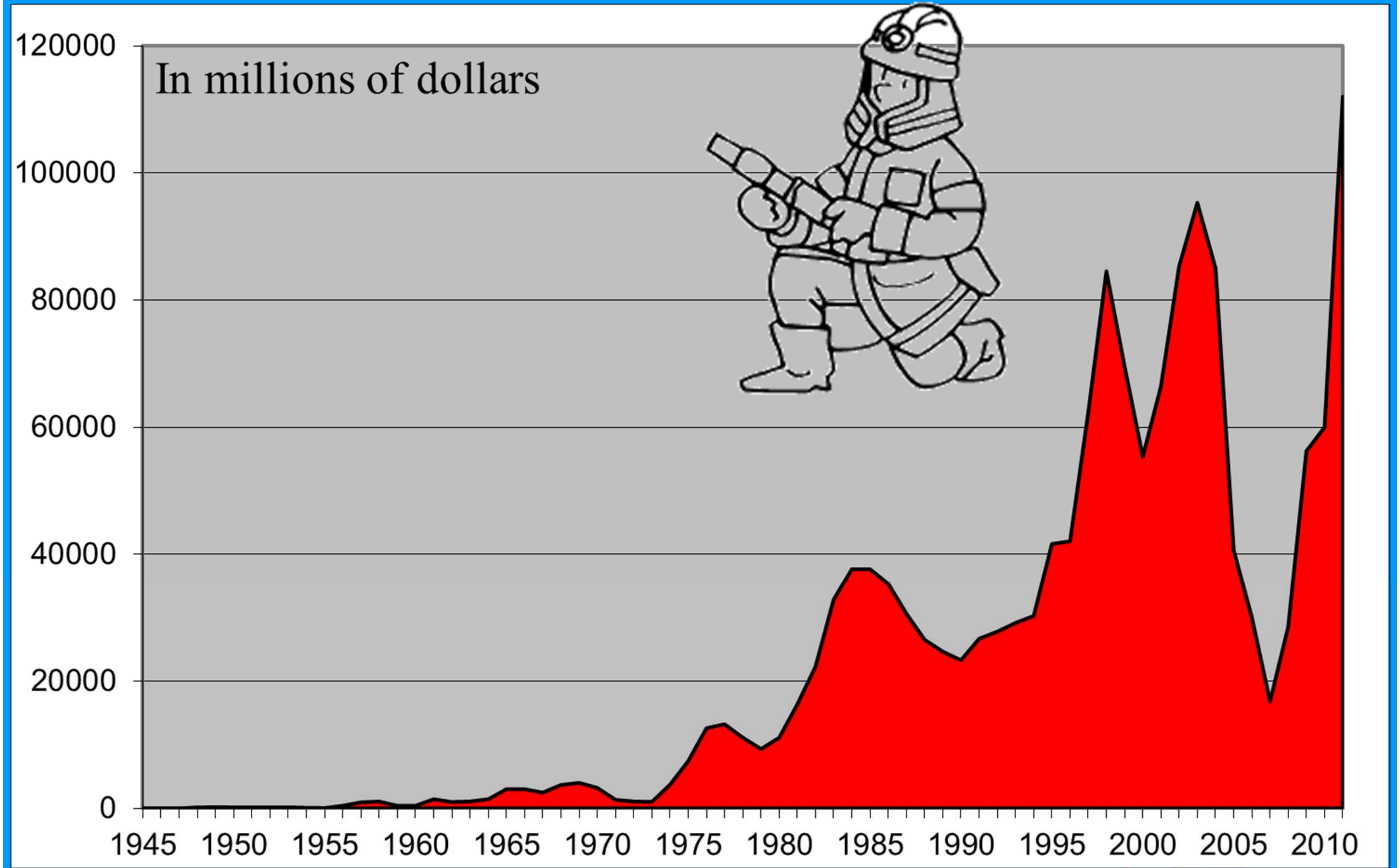
The IMF's Executive Board Room in Washington

US$750 billion

IMF’s Quotas in 2013



Total IMF Credit Outstanding for all Members



How to « manage » the globalization pitfalls?

☞ 2007: **European Globalization Adjustment Fund**: €2 billion

1. To help workers who lose jobs in the recession
2. To help promote training and new business

☞ 2008-2013: **Recovery stimulus plans** in the EU, China, US… >2000 billion $ Quantitative Easing

☞ 2012: Financial Stability Mechanism to enhance access to capital markets by € zone governments

The key challenge of sustainable development

- How to transform economic growth into global **sustainable development**?
- How to give the market economy a **social and long-time horizon** (with governance and ethics)?
- The global financial crisis = symptom of a growth model crisis: This time it’s different!

The major challenges of the new global order

- The global crisis reshuffles the cards of economic power, with wide-ranging geopolitical effects.
- The crisis might further unhinge Europe and the West from center stage, its model of growth and governance no longer being a reference
- Shift of economic and geopolitical power from West to East: The global power centers get shifted to Shanghai, Bombay, Dubai, or Sao Paolo!

Two centuries of political and economic hegemony are over in the new global economic system!