

The Consequences of Contentism

Assessing the Significance of Intensifying **Geopolitical Challenges**



The **economic, financial and political** realities of the contemporary world are firmly displacing the pillars of the world economy and integration as we know it.

Recent developments around the globe are converging in a manner that threaten the longstanding tenets of worldwide integration. While globalization dictated global fiscal strategies for the last few decades, economies are now focusing on local-contentism.



Moving away from the policy of interdependence, countries are now aiming to become increasingly self-reliant and focus on the development of indigenous sectors, to the extent of promoting protectionist laws. Beyond the overhaul of economic and financial strategies, lies the threat of terrorism, interstate conflicts and the failure of performance by national as well as global governing bodies.

In this whitepaper, we examine the current geopolitical trends around the globe and their impact on the performance of modern businesses. We also look into the aftermath of counter-regulations in the long-term and reflect on the path forward that global leaders seem to be etching out for the world economy.

Geopolitical Risks

The Threat is More Real than Ever Before

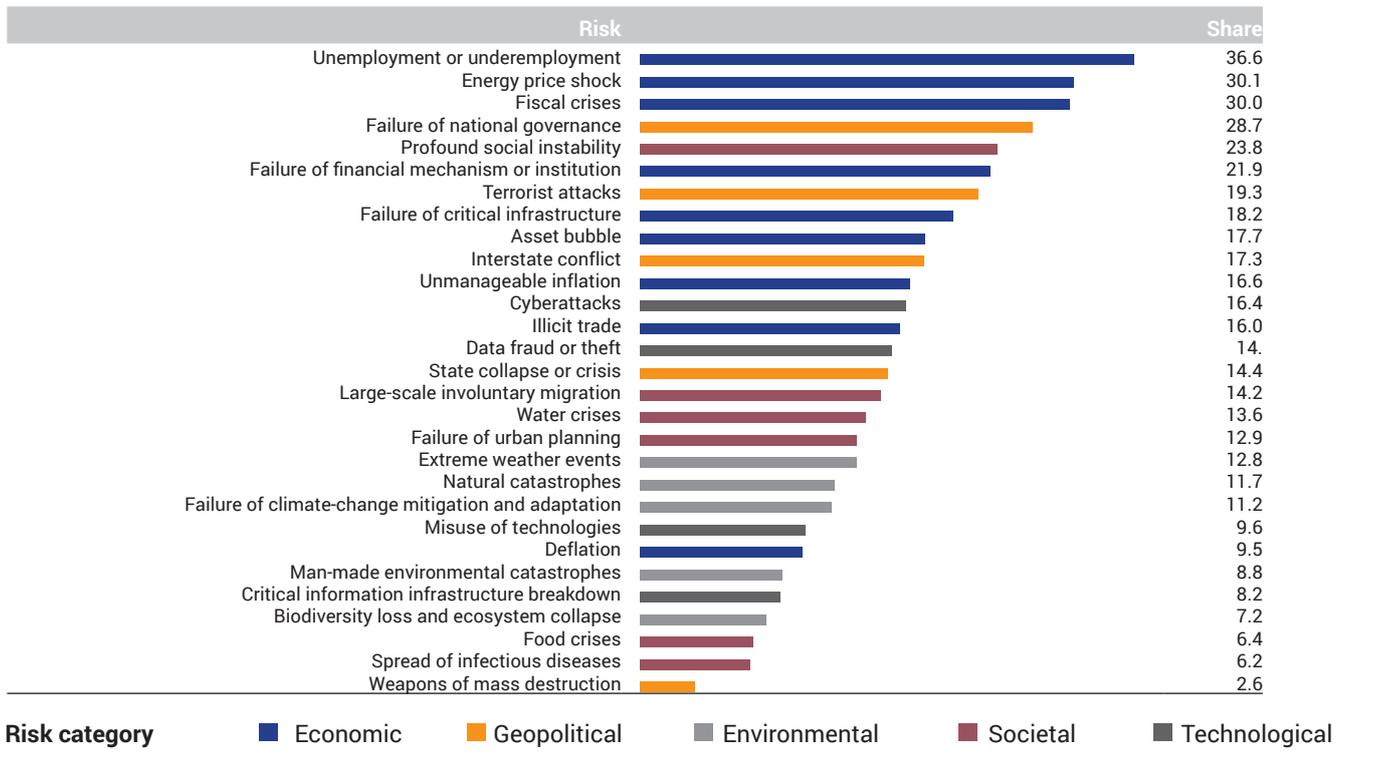


Chart I: Global Risks of Highest Concerns for Doing Business

The Global Risks Report 2017 released by the World Economic Forum, illustrates the likelihood and impact of threats to modern businesses.

At least three out of the top five risks (refer Chart I: Global Risks of Highest Concerns for Doing Business), which include underemployment or unemployment, energy price shock, fiscal crises, failure of national governance and profound social instabilities, have direct ties to geopolitical instabilities. Further, the interconnections between geopolitical risks and other economic, environmental and societal risks cannot be ignored.

The Surge of Nationalist Movements in Developed Countries

In 2016, two of the leading global economies were faced with hitherto unconceived situations. In June last year, a majority of British voters chose to exit the European Union.

The events - Brexit and Trump's election - find their roots in a similar demand of the public on either side of the Atlantic – focus on indigenouness. The slogans of both the campaigns - 'Make America Great Again' in United States and 'Take Back Control' in the UK - reflect the voice of the voters who felt left behind by globalization and victimized by the rising disparities in income. Moreover, they seem to have lost their trust in established political institutions.

These socially reinforced political movements are likely to have a major impact on the economic landscapes of not just UK and USA but also the global economic paradigm. Both the countries, which are leaders of the developed economies, are now restructuring their strategies into protectionists and individualistic actions. This can lead to the disintegration of globalization, and in fact, could lead to deglobalization. The dynamics of deglobalization pivot around the tenet of 'everyone for himself'. Consequently, policies that foster local contentism,

1. <http://reports.weforum.org/global-risks-2017/global-risks-of-highest-concern-for-doing-business-2017/>

such as nationalization and industrialization for import substitution take centre stage.

A Decline in Global Trade Volumes

However, this phenomenon was hardly unexpected. According to the World Bank data, global merchandise trade volumes

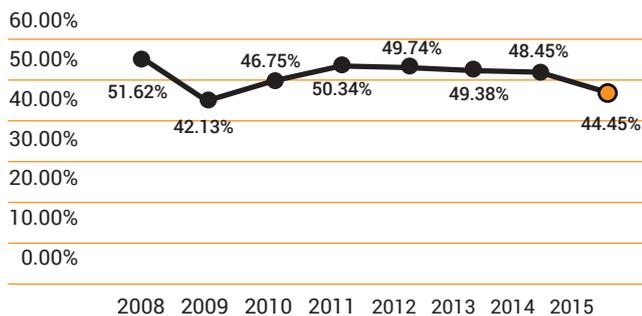


Chart II: Merchandise Trade Volumes (% of GDP)

have not been able to catch up since the recession in 2008. After peaking at 51.62% of the GDP in 2008, the volumes declined to 42.13% the following year. While the next couple of years witnessed improvements, the parameter has witnessed a steady downward trend 2012 onwards (refer Chart II: Merchandise Trade Volumes).

The offset of this trend finds its roots almost a decade back, when following the great recession of 2008, companies realized that cheap labor is not the only factor to success. Manufacturers realized that longer the supply chain, greater the chances for disruption.

Economic, social and political instabilities in emerging countries, which are often the powerhouses of exports, had a direct impact on the business performances of importing manufacturers. Hence began the thrust for inward-looking policies, which ensured that businesses were not overly affected by overpowering global factors.

According to a report by the World Trade Organization, global trade volumes continue to remain tepid because of a spike in inflation leading to higher interest rates, monetary tightening measures and the burden of trade restrictive policies, .

Companies realized that cheap labor is not the only factor to success and the longer the supply chain, greater the chances for disruption.

Beyond the Economics of Policies

Recent political and non-economic developments around the world could lead to widening of global imbalances. Interstate conflicts and rivalries among important regions such as China, Japan and South Korea could have a dampening effect on the global economy. On the other hand, political-socio-economic instabilities in West Asia and Africa have led to unprecedented migration. In addition, terror attacks undermine the economic performance and political stabilities of countries worldwide. So far, in 2017, the world has witnessed 616 terrorist attacks which have led to over 4000 fatalities . Besides major policy shifts, these factors hold huge potential to hurt productivity and incomes and take an immediate toll on market sentiments.

Further, technological advances such as large-scale production of shale gas have disrupted conventionally high oil prices across the world. Consequently, oil prices that hovered in the range of USD 80 –110 a barrel between 2010 and 2014, plunged to less than USD 30 per barrel last year (Refer Chart III: Average Annual Prices of Crude Oil) Champions of the oil

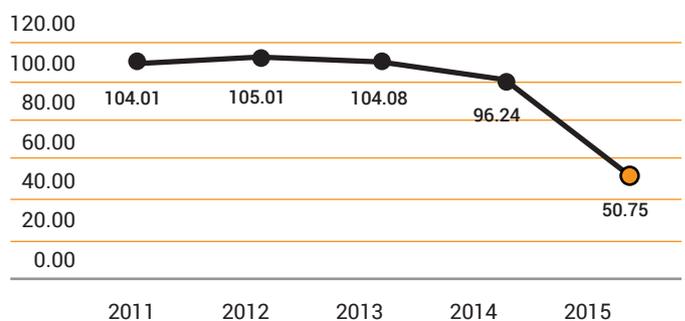


Chart III : Average Annual Prices of Crude Oil (USD/ Bbl)

2. https://en.wikipedia.org/wiki/Make_America_Great_Again
 3. <http://www.birmingham.ac.uk/research/perspective/eu-ref-haughton.aspx>

4. <http://data.worldbank.org/topic/trade>
 5. https://www.wto.org/english/news_e/pres17_e/pr791_e.htm

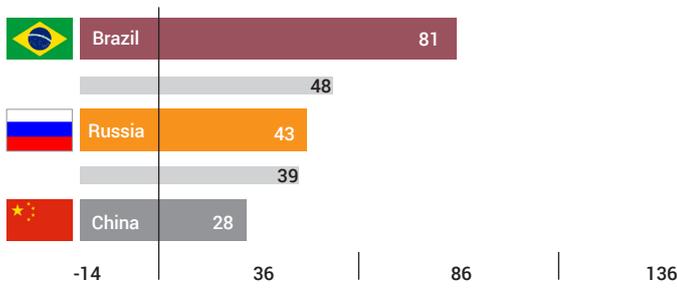
price cut argue that it is good for the economy since it leads to lowered manufacturing costs and increases consumer spending. However, the naysayers believe that the cons outweigh the pros – with the decrease in oil prices could lead to another recession and collapse ruling regimes.

In Unity Lies Strength

The remedy to the complex challenges faced by the contemporary world lies in worldwide integration. Our strength as a global community is far greater than our individual nationalistic aspirations. None of the countries can combat trials ranging from terrorism to economic revitalization single-handedly.

Economies who have tried to deviate from the integrated school of thought have largely failed. For instance, Brazil's attempts at deglobalization and reimplementing of import subsidization industrialization have harmed its industrial output and economic potential. According to the Global Competitiveness Report 2017, Brazil is ranked at 81 out of 138 economies in terms of competitiveness (refer Chart IV: Global Competitiveness Ranking of BRICS Economies).

Chart IV: Global Competitiveness of BRICS Economy



While opponents of globalization believe that it perpetuates inequality instead of reducing it, we say that cross-border integration is our strongest weapon against the forces of inequality, extremism and imbalances. Leading international agencies and think tanks subscribe to the same school of thought.

United Nations has predicted that the forces of globalization could eradicate poverty in the 21st century. "Globalization has enriched the world scientifically and culturally, and benefited many people economically as well", believes Nobel Laureate Amartya Sen.

The new avatar of globalization then needs to be governed by a set of global rules that encourage equitable growth as well as indiscriminating opportunities.

Ushering the New Era of Globalization

The globalization debate becomes meaningless if its outcomes are not inclusive. For the privileged sections of the society, globalization is all about advancing technology, better connectivity and farther reach. However, for the marginalized sections of the world, which unfortunately form the majority, these phenomena mean nothing. If globalization were to benefit everyone and induce equitable growth, it needs to move out the straitjacketed confines of technology and advancements. Instead, it ought to focus on decreasing obstacles and propagating interdependence and interconnectedness.

The new avatar of globalization then needs to be governed by a set of global rules that encourage equitable growth as well as indiscriminating opportunities. Connectivity and technology can reinforce productivity on a global scale and negate the threats posed by geopolitical situations world over. While these very factors are known to spur extremism and discrimination for instance, they can also be used to reverse the effects of such proliferations.

The use of technology in stimulating social cohesion have been demonstrated in incidents such as the Tahrir Square revolution in 2011. While the Internet cannot create history, it certainly can bring people together to fight injustice and protest inequality. Likewise, the integration of technology in traditional sectors such as agriculture and manufacturing can increase their efficiencies and productivities. In fact, we believe that technology has to be implemented to create more economic opportunities across the world.

Recent political and non-economic developments around the world could lead to widening of global imbalances. Besides major policy shifts, these factors hold huge potential to hurt productivity and incomes and take an immediate toll on market sentiments.

path deftly, balancing their own needs while ensuring that the delicate global balance does not tip either ways. Multinational businesses on the other hand, need to exercise caution while dealing with geopolitical instability as they are faced with operational, financial, governance and safety risks. Their strategic planning teams should foresee the connections between seemingly unrelated global events and undertake steps to mitigate these issues. Comprehensive steps and risk management strategies will lend them a competitive advantage and lead in a world filled with rapidly changing dynamics.

The Bottom-line: An Equal World is a Borderless World

It is easy to build walls and live under the notion of self-dependence. However, breaking walls and making a new beginning is an expansive and expensive process. Ensuring sustained and equitable economic growth, lending a semblance of stability in the face of turbulent socio-political events as well as putting up a brave-front to the evils of extremism can be achieved through integration, interconnectedness and interdependence of global communities. Moving away from this ideology and drawing borders through protectionist policies could hamper the progress made by our civilization over the past few decades.

Ultimately, the choice is ours to make.

Over Reaction v/s Proactive Caution

History shows that the impact of geopolitical challenges is not long-term and markets tend to rebound in the short and medium term. Case in point being the performance of the global equity benchmark, the FTSE All World Index has registered 24.41% returns during the last one year . However, history also shows that the poor economic decisions have led to the collapse of regimes, caused famines and massacres as well as revolutions that have changed the ways of the world. Hurried comebacks to the existing geopolitical challenges could jeopardise the liberalized view of the world, displacing the tenets of trust and equitable progress. While hasty reaction is not the answer, proactive caution certainly is. Policymakers of leading economies need to take tread this

- 8. http://www.huffingtonpost.com/entry/the-clash-between-deglobalization-reglobalization_us_586e8e2de4b0a5e600a78907 .
- 9. <http://reports.weforum.org/global-competitiveness-index/country-profiles/#economy=BRA>
- 10. <http://www.economist.com/blogs/freeexchange/2013/09/economic-history-1>
- 11. <http://www.ftse.com/products/indices/geis-series>

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