

The shifting geopolitical landscape



October 2013:

The geopolitical landscape has changed dramatically since 9/11 and the global financial crisis. These two events have driven dramatic government action from West to East and North to South, changing the perception of what's normal procedure in international politics and economy. The words "political risk" now dominate thinking across the globe – not always with positive results.

At the same time local and global political systems are becoming more diverse, reflecting global economic and power shifts, for example the move from the G8 to the G20 forum. Economic power is shifting to BRICS plus a next tier of rapidly developing economies, due to a combination of increasing financial power, resources, knowledge base, population, and consumer affluence – leading to a much more multipolar market landscape. But it's one where resource balances are critical for continued development. Access to and control of resources, whether from the Arctic or the South China Sea, continues to be a source of tensions between nations.

Add to this a wave of civil unrest that has hit the world challenging political systems – democratic as well as authoritarian – craving economic, social, and political changes. Government weaknesses – and new communications technologies – have led to a dramatic shift in the balance of power within societies. The voice of the people is being heard and it is clear now that enough motivated people can achieve change.

The sum of these changes gives us a more diverse and less predictable world. From a business perspective the geopolitical shifts of the last decade need to be reflected in a company's strategy because not doing so equals risky business. Understanding and mitigating geopolitical trends and risk as well as political and social changes is fairly new to many corporations and businesses. With this in mind, this briefing explores some of the more important geopolitical shifts happening today.

The distribution of global power

This year the U.S. government's [National Intelligence Council](#) released the report [Global Trends 2030: Alternative Worlds](#) predicting: *"The world of 2030 will be radically transformed from our world today. By 2030, no country—whether the U.S., China, or any other large country—will be a hegemonic power. The empowerment of individuals and diffusion of power among states and from states to informal networks will have a dramatic impact, largely reversing the historic rise of the West since 1750, restoring Asia's weight in the global economy, and ushering in a new era of "democratization" at the international and domestic level."*

With the recent collapse of the U.S. and global economies, the U.S. is no longer considered the unquestioned global superpower – and thus the ally of choice in geopolitical terms. There is no doubt that U.S. influence in the global political and economic landscape remains dominant today and will be significant in the future. However, with the rise of BRICS, it will have to increasingly share power with these nations. The question is which are the emerging superpowers and what will be their roles in an ever-more connected world. Clearly, China is already challenging for superpower status, if it has not already achieved it at least economically. Looking further ahead, others among the BRICS are aspiring to greater geopolitical roles globally. However, each faces challenges in making the transition, so the picture is far from clear in terms of who will lead the world in the decades to come – but without doubt new alliances will be forged and others will shift.

In Action!

Superpower perceptions 2013: It has been five years since the fall of the Lehman Brothers pulled the world into the worst recession since the 1930s. Five years in which the perception of the economic balance of power has shifted from West to East. While the U.S. is still regarded as the world’s economic superpower many believe China will surpass it in the not too distant future. New research from [Pew](#) shows that in 2008 47% of people believed the U.S. was the world’s leading economic superpower, and 20% believed it was China. In 2013 the number naming the U.S. decreased to 41% and China increased to 34%. The perception that China is the dominant superpower is especially widespread among some of America’s closest allies. In 2013, just 33% in Britain and 19% in Germany named the U.S. as the leading economy –53% and 59% respectively named China.

Will China become the world’s new leading superpower?
Median % saying China has already/will eventually replace the U.S., by region



(Source: [Pew](#))

The rise of the South: Global power is not only being shifting from West to East but also increasingly from North to South. The [United Nations Development Programme’s \(UNDP\) 2013 Human Development Report](#) states that *“The rise of the South is unprecedented in its speed and scale...Never in history have the living conditions and prospects of so many people changed so dramatically and so fast.”* The discussion of global rebalancing and increasing prosperity is often based on rapidly increasing GDP and trade numbers in a few large countries, generally the BRICS. However, more than 40 developing countries of the South shows human development gains that significantly outpace global norms. These gains have not only far-reaching implications for people’s lives, for social equality and for democratic governance at the local level but also highlight opportunities for greater worldwide human progress. Examples of

smaller economies with substantial progress include Bangladesh, Rwanda, Chile, Ghana, Mauritius and Uganda.

The G20 – is it really worth it? French newspapers reported in 2011 that the 2011 G20 Summit in Cannes cost the country €80m, and no doubt the costs of the 2012 Mexican Summit and the 2013 Russian Summit were as much if not more. The purpose of the G20 organization, which brings together the countries that produce around 85% of global GDP, may be summarized as allowing important industrialized and developing economies to discuss key issues in the global economy. And discuss they do! However, more and more people are questioning the forum's inability to forge workable decisions on critical issues and whether the G20 leaders are being too profligate with taxpayers' money for what seems little if any result. (Source: [The Independent](#)) Is the G20 Summit a waste of time and taxpayer money? Or does it need to reinvent itself to become more efficient and effective?

Look Out For...

Is the U.S. stepping back as the global policeman? The U.S. has fought numerous wars and been engaged in many conflicts since the country emerged as a great power in the early 20th century. The world has been relying on the American Policeman for decades. However the nation's politicians – amid dysfunctional political systems – are finding it hard to justify to the American people that being first responder again and again is the right thing to do, in particular, as the country is war-weary after Iraq and Afghanistan coupled with a prolonged recession. A change in approach is already evident, e.g. in Mali where the U.S. was absent leaving the French to protect their own interests. In Libya, the U.S. only intervened after the French and British launched an attack they could not sustain. Now in Syria, the chemical weapons agreement has allowed the U.S. to avoid direct action which would likely have been opposed by the American public, in spite of its "red line." Clearly, the American psyche is having a hard time reconciling the contradictory needs of investment in rebuilding a strong economy and society with moral imperatives to protect human rights and stand up against brutality. These tensions are likely to continue, and the U.S. could well take further steps back from being the world's policeman, but how the rest of the world will fill the gap is uncertain. (Sources: [Real Clear World](#), [IMD](#), [Stratfor](#))

Putin's bluff: The cold war was a time when Russia could proudly say it was a global power. The collapse of the Soviet Union dramatically changed this, with Russia's credibility as a global player much weakened in the eyes of the U.S. and many others. However, President Vladimir Putin has never been shy in declaring his intention to reinvent Russia as global superpower by for example through a proposed "Eurasian Union." Today Russia has influence, through its enormous oil and natural gas resources, a permanent seat on the United Nations Security Council, a reasonably strong economy, and one of the world's largest nuclear arsenals. In addition it is flexing its muscles over Syria, blocking resolutions in the UN Security Council and being accused of holding it "hostage." So is it set to return as a superpower? Unlikely. Its economy is heavily focused on energy exports that depend on high prices that it cannot control. Apart from parts of Moscow and St. Petersburg life remains hard and life expectancy short, with high inequalities. Militarily it is no match for the U.S. but with the U.S. withdrawing from a deeper involvement in the Muslim world, and with the Eurozone in disarray, Russia is currently exercising a level of power in excess of its real capacity. Russia is not back to greatness, it is merely reinventing itself as a regional power. (Sources: [Stratfor](#) and [several news sources](#))

The race for the Arctic: As Arctic ice melts new opportunities arise, from shorter shipping lanes to newly accessible oil and gas reserves. About 13% of undiscovered oil and 30% of undiscovered gas reserves are estimated to be in the Arctic. The territory also contains other sought-after natural resources, e.g. metals, fish, fresh water, high-valued minerals such as

diamonds and rare earths, and don't forget it is home to about 4 million people from 40 ethnic groups and an economy of US\$230 billion. It is a region ripe with opportunity but also one of the last true wildernesses on earth and a very challenging environment. Developing the Arctic will be a complex task fraught with geopolitical tensions. According to [strategy+business](#) governments and businesses should start by addressing five key challenges: 1. Protection of the environment and its people; 2. Insufficient investment for infrastructure; 3. Navigation of dangerous waters, 4. Unresolved governance disagreements; 5. A lack of research (Note: Although this is not a complete list, it brings together current, convergent dialogues and debates about the region. Sources: [strategy+business](#), [United States Geological Survey](#))

BRICS and Beyond, the turning point

Only twenty years ago the share of global GDP produced by emerging market economies was 35%. In 2012, that share passed 50% of a now even greater global GDP of US\$70 trillion (Source: [The Globalist](#)). Five years ago, while the developed world was struggling with the spreading financial crisis, the emerging markets and in particular the BRICS, roared ahead and were predicted to reshape the economic world order. These years of increasing living standards for many millions of people in emerging economies have whetted appetites for more.

The rapid growth in emerging markets in the last decade has largely been driven by the enormous and hungry growth machine of China. However, now China is slowing as growth falls below double-digits, trade volumes are down, and investments are scaled back. At the same time a potential cutback of the U.S. Federal Reserve's quantitative easing (QE) policies has already seen capital flight from the BRICS and beyond driving currencies down from India to Indonesia. Despite international efforts (e.g. at the recent G20 meeting) to address the issue, more mass withdrawals of foreign investment in emerging economies are to be expected as developed economies will once again be more interesting investment markets.

As China and other rapidly developing economies slow the question is how bad the knock-on effects will be globally and whether they will threaten the economic health of the BRICS and beyond?

In Action!

Why China is slowing down – the very short version: For the last 30 years investment has been the principal engine of China's economy. In 2011 for the first time, consumption contributed 55.5% of China's growth and investment contributed only 48.8%, a trend that is continuing (net exports subtracted 4.3%). Export-led economies work well for developing countries, turning poverty into a competitive advantage by using cheap labor to produce products to sell abroad. China is the world's second largest economy so this approach doesn't work anymore. Why? During the global recession China's exports fell as global demand slowed, so China propped up its high GDP growth by creating new infrastructure, housing, and factories. But you can't do that forever so its economic model needed to refocus toward driving greater domestic demand – demand that cannot keep up the extremely high GDP growth of the 2000s. (Source: [The Economist](#), [The Washington Post](#))

Is India losing it? India, once Asia's darling and a country predicted to overtake China as the world's powerhouse: Today things look very different. GDP has plummeted and along with other Asian currencies including the Brazilian real and the South African rand, the Indian rupee has literally plunged (though it has regained some strength recently). Even when GDP growth was high, India was still performing badly in its HDI (human development indicators) and the country continues to struggle with fundamental problems. The water, energy and environmental challenges in India are vast and the food challenge even worse – people are

starving. Three essential problems plague India: a very high level of corruption, a very low level of infrastructure, and fractious infighting among political parties. (Source: [The Globalist](#)). Is India really ready to play a central role in the global economy?

The emerging market transformers: It is not only in developed countries that younger generations want influence, change and a different lifestyle. Young people don't want the life of their parents and grandparents – they want more, as was seen in the Arab Spring and other more recent social protests (see the next section for more). The article [The New Globalist: Meet the Transformers](#) suggests that the best way to understand the newly emerging markets is to meet its millions of young people – the Transformers. Who are they? They come from different backgrounds and different continents, but share many characteristics. They are a part of the “I want more generation,” who are optimistic, hyperconnected, educated and have disposable income to spend. They demand Western goods, products and luxuries, and they want to travel – they are the people your company wants to connect with.

Look Out For...

Latin America – the new tech hot spot? A technology economy is booming in America's backyard. From Chile to Mexico local start-ups are finding their way into the economy and it has come to the attention of a small but growing group of investors and other entrepreneurs from the U.S. and beyond. For example:

- In 2012, Latin American tech start-up accelerators, [NXTP Labs](#) (Argentina) and [21212.com](#) (Brazil) “invaded” Silicon Valley with nearly two dozen start-up companies in tow. They had organized a pitch contest and audiences with U.S. investors, a major coup for companies from the region.
- For the first time, companies from Argentina, Brazil, Chile and Mexico had strong representation at TechCrunch Disrupt San Francisco, the annual tech conference of start-up companies and investors.
- A U.S./Mexican venture capital fund based in Monterrey, [Alta Ventures](#), closed in 2012 a US\$70 million venture fund, possibly the largest such VC fund in Mexico's history; the funds will mainly be invested in Mexican start-up companies. Another significant aspect of this deal is that a majority of the funds came from Mexican investors.

(Source: [All Things D](#))

What happens when China sneezes: Well, everyone more or less gets a cold in particular in emerging markets economies. China is clearly not heading towards recession, with growth around 7%, but it is has slowed down dramatically since its record growth years and the knock-on effect is slowly starting to kick in. It likely will hit Southeast Asian economies but according to the [Asian Development Bank Outlook](#) is unlikely to lead to a steep downturn in the region's growth. On the other hand, commodity producers and countries with relatively large China trade links, mainly Australia, Canada, Brazil, Malaysia and Korea are likely to take a huge hit. Thailand has already been dragged into recession, Argentina could relapse into recession by 2014, and growth is slowing in Brazil and India already. (Source: Various news agencies)

Beware of bubbles: Economic bubbles come and go. The world saw the Japanese asset price bubble in the 1980s, the dot-com bubble in 2000 and the U.S. credit bubble of 2007, just to mention a few. In 2011 IMF flagged its concerns about potential overheating of emerging markets' economies. Since the financial crisis started in developed economies international money has been flying into emerging markets. This vast amount of “hot money” has created a massive economic bubble in almost the entire emerging world. It has overheated economies, created property bubbles from China to Brazil, Indonesia and Turkey. It has ballooned asset

prices and money has led to “luxury fever,” just like it did in the developed world in the 2000s. Now as emerging market currencies fall along with GDP growth, fears that the emerging market bubble(s) will pop are increasing. (Sources: [New York Times](#), [The Bubble Bubble](#))

The age of instability

While trust in national governments remains close to 2011 highs, it is still low globally, and significantly lower than trust in NGOs, media and businesses (Source: [Edelman Trust Barometer 2013](#)). Add to this the fact that more than half the world’s people live in countries that are not free in terms of political rights and civil liberties. In the last three years increasing waves of social and political unrest have swept across the world, from the Arab Spring to the London Riots, the Occupy movement globally, and ongoing civil conflict in Syria. Even where regimes have changed, such as Egypt and Tunisia, new waves of unrest are demanding a different way forward.

The world is now seeing increasing mass mobilization with a dramatic shift from people raising voices to taking action, challenging the foundations of political, economic, and social systems. The protesters may come from different backgrounds and countries but share common characteristics: Many are part of a growing global middle class, and are young, wishing to forge a new way of living compared to their parents and grandparents – and they know how to ignite a protest using digital communications. The denominators sparking unrest are also increasingly common: Inadequacies in the public sector including transportation, healthcare and education, high levels of unemployment, massive income inequalities, and significant, widespread corruption.

Politicians around the world will do well to take note – and to look at more inclusive approaches to future governance. There is real potential for conflict if these issues are not managed appropriately – deaths and violence over religion are happening already. Without addressing the root causes of unrest, demonstrations could potentially escalate into broader internal or external conflicts.

Examples of recent protests and unrest in 2013

- **Brazil:** Brazilians from all walks of life united because of frustrations over high corruption, alongside poor transportation, health services, education and security despite a heavy tax burden. Demonstrations spread to at least 8 cities and despite vast numbers of protesters were in many cases peaceful. (Source: [National Post](#))
- **Chile:** University and high school students protested about the high cost of education. They were supported by CUT (Workers United Centre), the professors union, the Federation of Port Workers and the CTC copper union, among other labor organizations. Chileans have also protested to change the tax system to put a greater burden on the rich. Some of these demonstrations have seen violent clashes with militarized police. (Source: [MercoPress](#)).
- **Turkey:** The instigation of the unrest was the government’s intention to cut down 600 trees for a big development project in the one of the few green spaces remaining in the congested, pulsating core of Istanbul. What started as a peaceful environmental-driven demonstration escalated into violent demonstrations of frustration over perceptions of increasing authoritarianism and social conservatism by Prime Minister Recep Tayyip Erdogan. (Source: [CBC](#))
- **South Africa:** Has gone through a wave of labor unrest from gold miners to construction workers, car manufacturing and repair workers, and petrol attendants, e.g. the South African miners are demanding salary hikes of up to 60%. In early September 2013 more 160,000 South African workers were on strike and the South African economy is suffering significantly from the unrest. (Source: [Yahoo](#))

In November: Look out for a Review of the Year!