

TECTONIC SHIFT

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**The Geoeconomic Realignment
of Globalizing Nations**

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Dedication

Dedicated to the memory of my late brother-in-law, Mr. Sumatilal Mehta (founder of Safari Industries), who tirelessly served his community from Kutch, India.

—Jagdish N. Sheth

Dedicated to the memory of my father-in-law, Ram Chandra Malhotra, inspirational visionary and tireless humanitarian who devoted his life to reducing poverty around the world.

—Rajendra S. Sisodia

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Preface

We are living in an era of unprecedented change and huge risks as well as opportunities. The world stands poised at a critical bifurcation. On the one hand, numerous forces have aligned in recent years with the potential to splinter the world along racial, ethnic, religious and economic fault lines. The recent riots in France, continued conflicts in the Middle East, sharp divisions between the Shia and Sunni sects within Islam, the retreat from free market principles in some Latin American countries, misplaced hysteria over outsourcing, escalating concern about the future of energy resources and concerns about the devastating impacts of climate change—all these factors could cause the developed and developing sections of the world to withdraw from active engagement with one another, and retreat into familiar but fruitless patterns of isolation, suspicion and neglect.

On the other hand, we could harness the positive forces that have been gaining momentum in recent years to craft a future in which partnering between developed and developing nations becomes the dominant paradigm. The Internet has democratized information and knowledge to a startling degree, in an astonishingly short amount of time. The telecommunications revolution, particularly wireless telephony, has brought the liberating and labour-saving fruits of technology to vast multitudes. The interconnectedness of the world has never been as evident as it is today. All the nations of the world exist in a symbiotic ecosystem, in which the health and well-being of one directly

impacts and is impacted by the health and well-being of the others. Every country thus bears a responsibility to its own citizens as well as to the citizens of the world at large.

This book presents an optimistic and practical view of the future that is predicated on strengthened relationships between developed and developing countries that are based not on charity but on enlightened self-interest. We propose that the best way forward (i.e. the one that will generate the most prosperity for the largest number of people) lies in such 'North-South' integration. Moreover, this is most likely to be successful in the context of *regional* integration (though in some cases, countries that offer a strong strategic fit but are geographically distant will join a regional economic union), and will result in the formation of three huge regional economies bound together through the glue of free trade, a common currency, shared values, and shared developmental priorities and institutions.

The imperative on both sides is clear. For prosperous developed countries, the biggest need is for fresh economic growth. Most such countries have aging and shrinking populations. On the other hand, large emerging nations need investment and technology to raise their living standards and deliver the prosperity that their restive populations demand. Most such countries have young and still growing populations. The synergy between these two groups of countries is self-evident and widely recognized. For example, Goldman Sachs put out a very influential report in 2003 titled *Dreaming With BRICs: The Path to 2050*, which suggested that Brazil, Russia, India and China will account for a high proportion of economic growth over the next several decades, and their economies will rival and even overshadow the major industrialized economies of today.¹ But this optimistic prediction will not come to pass without the active involvement of developed countries.

¹ Dominic Wilson and Roopa Purushothaman, *Dreaming With BRICs: The Path to 2050*, October 1, 2003, Goldman Sachs Global Economics Paper No. 99.

Tectonic Shift represents a continuation of the journey started by *Commanding Heights*, Daniel Yergin and Joseph Stanislaw's magisterial recounting of the economic history of the 20th century.² We offer a plausible scenario for how the global economy is likely to evolve in the first few decades of the 21st century. In many ways, the 20th century was hijacked by ideology: communism, Nazism, World War II, the Vietnam and Korean wars, the Cold War. The 20th century was a historical aberration in that it witnessed, first, a US domination of the world, and second, a bifurcation of the world into two opposing camps. The 21st century, we believe, will be characterized by a much higher degree of pragmatism and more uniform distribution of power. As the world population matures and stabilizes in the 21st century, the gross domestic product (GDP) of countries will grow only slowly. Economic growth and vitality will depend more than ever on renewed growth in trade. In some ways, the 21st century will be reminiscent of the 19th century, during which David Ricardo's theory of comparative advantage gave new impetus to trade as an extraordinarily powerful economic engine.

We show how several non-intuitive developments are likely to take place as – what we call the 'regionalization with a twist' – occurs. For example, the European Union will become fully integrated with Eastern Europe, including Russia. India will become a close strategic ally of the United States and a key member of the Free Trade Area of the Americas (FTAA). We discuss how this journey will not happen unless advanced countries are able to take a long-term view and muster the political courage to willingly vacate markets for developing countries to occupy. The worldview of powerful countries such as the US must shift from one of dominance to one that recognizes mutual interdependence. Rather than viewing everything through the lens of their own narrowly defined self-interest, they must adopt a win-win partnering mindset that is focused on expanding the overall pool

² Daniel Yergin and Joseph Stanislaw, *The Commanding Heights: The Battle for the World Economy*, New York: Simon & Schuster, 1998.

of prosperity. Finally, we will show that this evolution will depend heavily on a close and trusting relationship between one large developed and developing country in each of the three regional economies i.e. between Germany and Russia, between the US and India and between Japan and China.

The restructuring of the world into three huge regional economies of roughly equal size and power should not be viewed as a dangerous or ominous development, an Orwellian harbinger of an unimaginable future 'War of the Worlds.' If the transition is well-managed, it should result in fewer conflicts and rising prosperity. Each region will work collectively to remove sources of internal conflict, and will provide infrastructure investments and other forms of economic support to elevate the living standards in its weaker sections. The regions will continue to trade with one another, as well as engage in other forms of exchange.