Chapter 1

The Geoeconomic Reality of Globalization

'It's the Economy, Stupid'

In their landmark study, *The Commanding Heights: The Battle for the World Economy*, Daniel Yergin and Joseph Stanislaw convincingly demonstrated that, while state control of the world's economies advanced during the decades of rebuilding after WWII (WWII), the final decades of the 20th century saw the reversal of that trend: across the globe, governments were retreating from 'the commanding heights' and giving way to market forces. Why? Because government-controlled economies were failing to deliver growth and prosperity and, those governments were being voted out of office in the Western democracies in particular.

This study will look beyond Yergin and Stanislaw's book, into the first decades of the 21st century, an era that brings new challenges. We believe that market forces will be increasingly ascendant and, as the world continues to flatten, in Thomas Friedman's phrase, progress toward globalization will likewise continue. But the new problem, which will vex the mature, advanced economies of the US, Western Europe and Japan, will be sustaining the growth that brought them to the pinnacle of the world's economy. More dramatically, how will developed nations survive in the era of globalization? Solving this problem will force interesting new alliances – strange bedfellows – as mature nations seek vibrant trading partners with young populations, unmet needs and still untapped resources. Of course, the two new giants – China and India – are already being courted, and we will predict to whom they will be wed. Yet our chief concern will be the newly evolving 'north-south' alignment of nations, via trade blocs, which we see as the regional path toward globalization.

To get started, let's look again at the upheaval of the 1990s, when incumbent political leaders and previously dominant political parties suddenly felt the ground give way under their feet. Consider the following:

- In 1991, in the wake of the first Gulf War, US President George H.W. Bush enjoyed a degree of popularity almost unheard of in modern times: well over 90 per cent of the American public approved of his job performance, a level never even approached by his highly popular predecessor Ronald Reagan. But just over a year later, in the election year of 1992, Bush was rudely thrown from office by the virtually unknown governor of a small southern state, Bill Clinton, ending twelve years of Republican Party rule. History may repeat itself for George W. Bush (the son). With a mounting deficit, rising inflation and a protracted war, his popularity recently fell to its lowest level and the country seems to be waiting impatiently for the next election in 2008.
- With his approval rating dropping to an abysmal 11 per cent, Canadian Prime Minister Brian Mulroney stepped down in the summer of 1993 after nine years in office. Kim Campbell, his finance minister who led the Progressive Conservative Party in the general election held that fall, replaced him. Neither she nor anyone else could have predicted the disaster that awaited her. It wasn't simply that the Liberal Party, led by Jean Chretien, won a decisive majority of seats in Parliament. What was absolutely unprecedented was the scale of the Tories' defeat. Of 295

seats, Campbell's party retained two – not even enough to qualify for official party status in the House of Commons.

- In 1990, John Major succeeded Margaret Thatcher as Prime Minister of Great Britain after Thatcher had transformed British society and served an unprecedented three consecutive terms. Major won reelection in 1992, the fourth victory in a row for the Conservatives. By the next election in 1996, the Conservative Party had ruled consecutively for 18 years. However, that election proved to be a veritable bloodbath for the Conservatives, as Tony Blair and the Labor Party swept into office with 418 seats in Parliament (a gain of 147), while the Conservatives lost 181 seats to stand at 165. Most recently, and despite his unpopular support of the US in the Iraq war, Blair was re-elected for the third time, mainly because the UK economy continues to do well.
- By 1998, Helmut Kohl had been Chancellor of Germany for 16 years, a post-war record. Had he been reelected, he would have surpassed Otto von Bismarck as Germany's longest-serving chancellor ever. Kohl had presided over the historic reunification of Germany in 1990. Defying his own economic advisors, Kohn made the controversial decision to allow an immediate 1-to-1 conversion of the East German Ostmark currency into Deutsche Mark, even though the prevailing black market rate ranged from five to ten Ostmarks per Deutsche Mark. The impact of this on the East German economy was disastrous; despite their much lower level of productivity, firms there had to operate with same cost structure as Western firms. This led to a precipitous drop in output, soaring unemployment and record budget deficits. Kohl's Christian Democratic Union party was soundly defeated in the 1998 election by the Social Democrat Party's Gerhard Schröder, who pledged to fight mass unemployment. Unfortunately, Schröder could not deliver economic growth and lost the election to Angela Merkel. After nearly two months of political gridlock, in late 2005, Merkel was poised to lead a coalition government as the first female chancellor of the German Republic.

- The Socialist Party's Francois Mitterand was elected President of France in 1981. In 1992, Francois Mitterrand's Socialist Party was soundly defeated. From their Parliamentary majority established in the previous election, the Socialists plummeted to 70 seats against the 484 won by the combined forces of the right. Mitterrand remained in office until 1995, when Jacques Chirac was elected President. Again, with an anemic economy and rising ethnic discord, it is not clear whether Chirac's party will be re-elected in the next election.
- Japan's post-war leadership was dominated by the Liberal Democratic party, which held power from its formation in 1955. Japan's long economic miracle finally ran out of steam in 1991, when the economy began a lengthy and deep downturn. In 1993, the LDP's 38-year monopoly on power suddenly ended, ushering in a period of coalition governments and political instability; as many as 18 new political parties were formed and disbanded between 1993 and 1999, when the LDP returned to power. In April 2001, the youthful and reform-minded Junichiro Koizumi was elected Prime Minister, signaling a generational change in Japanese politics. Again, in the most recent elections, Koizumi won a landslide victory mostly because Japan's economy is breathing again and the Tokyo stock exchange is filling the wallets of the nation.

To put together an explanation of such political upheaval across the industrialized world, let's recall a few facts. In Canada, voters were suffering from a lingering recession that was made more painful by Tories' imposition of the Goods and Services Tax, a national sales tax. In France, although Mitterrand had long since abandoned Socialist economic principles, unemployment still hovered at 10 per cent, and the national budget was strained to pay jobless benefits. In Germany, Kohl's popularity crested with reunification, but when he allowed the mark in East Germany to be of equal value to that in the West, he invited economic disaster – and spiraling unemployment. He injured himself further when he broke his promise and raised taxes to help defray the costs of reunification. In the US, as the first President Bush geared up for re-election, unemployment was close to 8 per cent, and the economy was still mired in a two-year-old recession. Of course, like Chancellor Kohl, Bush was undone when he broke the infamous pledge, 'Read my lips. No new taxes.'

Clearly, when voters in Western democracies go to the polls, they are influenced not so much by ideology as by their stomachs and their wallets; and the political turmoil that roiled the industrialized world in the early 1990s was certainly an economic revolt against the stagnation and unemployment that seemed to have become endemic. But the problem was – and continues to be – larger than a temporary economic downturn, and it will not be solved by quick-fixes like tampering with the money supply or the exchange rates. In surveying the global landscape prior to the G-7 meeting in Munich in 1992, *Wall Street Journal* columnist Gerald Seib pointed in the direction of the real problem: 'There is a widespread sense that Western economies are moving into a post-industrial phase in which many lost jobs aren't coming back – and that current political leaders, geared to a Cold War military-industrial complex, don't know how to generate new ones.'[1]

Simply put, among the major industrialized countries – the 'triad' consisting of North America, Japan, and the European Union – there is little room left for growth. As Kenichi Ohmae analyzed the problem in his book, *Triad Power*, 'These countries have very similar problems: a mature and stagnant economy, escalating social costs, an aging population, lack of jobs for skilled workers, and at the same time, dynamic technological developments coupled with the ever-escalating costs of research and development (R&D) and modern production facilities.'[2]

Meanwhile, dramatic changes were taking place in developing countries as well:

- Since 1929, the Institutional Revolutionary Party (known by its Spanish initials, PRI) ruled Mexico. The party became so deeply rooted in the country's institutions that it became synonymous with the State. Institutions that were aligned with the party represented all government employees, peasants and workers. By 1997, the PRI was the world's longest-ruling party, but in elections that year, it lost power in the lower house of Congress. Then, in the 2000 election, the party was forced out of power completely, losing the election to the conservative National Action Party (PAN). Vicente Fox, a rancher and former Coca-Cola executive, was elected President. Unfortunately, despite the positive impact of the North American Free Trade Agreement (NAFTA) on the Mexican economy (it is now the second largest trading partner of the US, behind Canada, and neck and neck with China), the Fox government has been unable to deliver an economic miracle in Mexico. It is, therefore, less likely that his party will be re-elected.

- The socialist-minded Congress party had ruled India since independence from England in 1947 until 1996, except for three years in the late 1970s. What's more, the Prime Ministership was held, except for a brief time in the 1960s, by the Nehru family: Jawaharlal Nehru from 1947 to 1964, his daughter Indira Gandhi from 1966-77 and again from 1980-84, and her son Rajiv Gandhi from 1984-89. In 1991, following Rajiv Gandhi's assassination during the election campaign, the Congress' P. V. Narasimha Rao became Prime Minister. With the help of the IMF, Rao and Finance Minister Manmohan Singh initiated wide-ranging economic reforms. But economic growth was not rapid enough, and the Congress party was defeated in the 1996 elections. After that, a coalition led by the nationalist Bhartiya Janta Party (BJP) and its charismatic leader, Prime Minister Atal Behari Vajpayee, ruled India. The BJP accelerated the pace of economic reform, and was clearly poised to win a large majority in Parliament in the 2004 elections – but lost the election by a wide margin in one of the biggest electoral shocks of recent times. In retrospect, the BJP failed to deliver economic benefits to rural India, and the Congress party is back in power as the leader of a coalition that will attempt to do just that. If the current government, despite its coalition with the Communists, continues to deliver growth through employment and wealth creation that is especially beneficial to the rural population, it is likely to survive and may even weather any scandals or external events.

- The great economic miracle that is China today was mired in insularity and stagnation as recently as 1978. That was when Deng Xiaoping and other pragmatists within the Communist Party of China (CPC) initiated major economic changes that continue to this day. Their vision was clear: China needed to generate surplus value in its economy to invest in modernization. Deng's approach was simple: motivate factory workers and farmers to produce more. Farmers were given incentives to become more productive by allowing them to retain a good portion of the fruits of that improved productivity. In industry, managers were given more autonomy and were allowed to reduce their work force if needed and give bonuses to more productive workers. Gradually, China also started to adopt more of an open door policy to allow direct investment by foreign companies and encourage international trade. In the 1980s, China created more market institutions and gradually moved from an administratively driven command economy to a price-driven market economy. In the 1990s, China focused on building a viable banking system driven by profit and loss rather than by political mandates. In the late 1990s and early 2000s, China focused on industrial reform, including shutting down non-viable state-owned factories. The liberalization of the economy and the injection of market forces have thus progressed in a steady and gradual way, greatly raising national output and living standards. This reflects Deng's original tenets of reform: pragmatism and incrementalism. Today, China is investing heavily to upgrade its infrastructure, with new superhighways, airports and telecommunications facilities. China's enormous ambitions for the future are dramatically symbolized by its deployment of the world's first commercial magnetic levitation train service. The train, capable of traveling at 300 miles per hour in virtual silence, zips people from Shanghai's airport to the city center in less than 10 minutes.[3] Among all the emerging economies, it seems that China is the most likely to continue to deliver economic growth with more jobs and wealth creation, especially among the interior Chinese population.

- When Dr. Mahathir Mohamad became Prime Minister of Malaysia in 1981, the country was just recovering from race riots and fighting a Communist insurgency. Mahathir gradually transformed the country into an oasis of peace, prosperity and economic growth. He moved Malaysia away from its dependence on commodities such as crude oil, rubber and palm oil, encouraging export-oriented manufacturing instead. His government kept inflation low and avoided balance-of-payments problems. He invested heavily in infrastructure, building high quality roads, an excellent railroad system and a world-class phone system. The results were outstanding: GDP rose from $12 billion in 1980 to $210 billion in 2002, with a per capita income of $3,540, the third highest in South Asia.[4] Today, Malaysia has one of the world's most open economies. As it finds itself squeezed by lower-cost manufacturing destinations such as China, Malaysia is trying to emulate Singapore, South Korea and Taiwan by moving up to more sophisticated, higher value activities. The government is increasing its spending on R&D, now 0.5 per cent of GDP, compared to 0.1 per cent in Indonesia.[5] Also, unlike many other Islamic countries, Malaysia's economic policies are secular in nature and seem to benefit significantly as a gateway between ASEAN and China for the moderate Middle East trading countries.

The common denominator in all these examples is that the only way for politicians to get in office and stay there is to deliver jobs and economic growth. Bill Clinton rode into the White House in 1992 by focusing relentlessly on a single message, summed up his campaign manager James Carville in the now-immortal phrase, 'It's the economy, stupid.' Not only that, Clinton was comfortably reelected in 1996 despite his personal problems, because the economy was doing well.

Carville was on to something big in pressing that theme. As democracy takes root in more and more parts of the world, politicians who cannot deliver economic growth quickly lose their jobs. Ideological considerations have gradually lost out to economic ones, and as a result, economic and political dogmatism is giving way to pragmatism, especially after the collapse of the Communist bloc. For example, India shed its socialist, protectionist and isolationist stance, while China gave up on collectivism (while continuing to pay lip-service to communism and maintain strict limits on political expression).

Why have economic forces become such a dominant factor in determining the outcomes of elections and the fates of politicians? Economics drives politics, and economic malaise inexorably leads to political instability. When democratic governments fail to deliver economic growth – when people lose jobs – those governments are turned out of office. Political instability, in turn, adds the additional economic stress of capital flight. Money goes underground, out of the country, under the mattress, rather than being invested in productive work, and growth is therefore further stymied.

While the changes were brewing before, we trace the turning point back to the energy crisis of the early 1970s. This, coupled with currency deflation after President Nixon took the US dollar off the gold standard, led to stagflation (slow economic growth and high inflation) in the mid and late 1970s. Though stagflation originated in Nixon's policies and the twin energy shocks of he 1970s, Jimmy Carter ultimately paid the price for it, and lost the 1980 election (he calls this being 'involuntarily retired by the public') amidst record levels of inflation and unemployment.

In this light, when he leaves office in 2008, George W. Bush will leave his party an interesting legacy. To this point his administration has skirted economic disaster, but massive deficits and a huge trade imbalance will be a drag on economic recovery, depress wages, and slow job creation. Such conditions on the micro level will compound the macroeconomic problem we addressed at the outset: How will the US and other advanced nations continue to grow their economies in the 21st century? To find the answer, let's look back, then forward.

Economic Growth Engines – Past, Present and Future

Prior to the industrial revolution in the late 18th century, there was little economic growth in the world. For thousands of years, the average standard of living rose very little, and the vast majority of people lived a subsistence-level existence, with few luxuries if any. Then, after the industrial revolution, per capita income and consumption increased dramatically over the succeeding two centuries.[6] Gradually, ordinary citizens in industrialized countries could aspire to levels of comfort and prosperity that only a few rich people experienced earlier.

Before the industrial revolution, there was very little democracy; political rights and the ownership of land and property were all with the monarchy by birthright. The democratization of wealth gradually allowed the private sector to enter infrastructure businesses such as shipping and railroads.

After the industrial revolution, the first big economic growth engine for the world was Western Europe (Figure 1.1). The Europeans began to gradually outsource manufacturing; rather than get raw materials from the 'new world,' they began to set up factories there. The British in particular invested heavily in the US, in railroads, mines, cattle ranches, mineral processing, packing meat, and flour making. The US was able to grow as an export-oriented economy. Likewise, many colonies of European countries around the world experienced economic growth by exporting first raw materials and later some finished goods to Europe.

In the 1900s, the growth engine was North America, primarily the US. Especially in the second half of the century, the US began to open up its market to imports. In industries where it was no longer competitive, it began to outsource, and countries such as South Korea, Singapore, Taiwan, Japan and Hong Kong

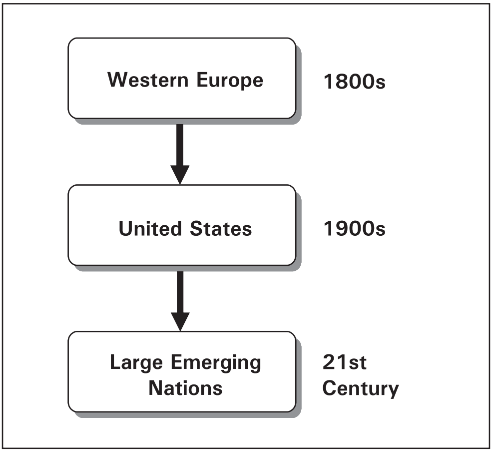

Figure 1.1: Economic Growth Engines for the World

all grew into major economies by exporting to the US market. At that time, trade policy was clearly linked with the Cold War; if a country was a political or military ally, the US market was opened up to it; otherwise, it was closed. Thus, the US had very little trade with the USSR, enormous trade with South Korea and none with North Korea.

The 21st century will bring a radical change: for the first time in history, economic growth will be driven by large emerging nations rather than by advanced countries (Figure 1). How revolutionary is this change? If you were to draw a map of the post-colonial, post-industrial-revolution world based on economic strength and world trade instead of on physical size or population, it would consist largely of Western Europe, the US and Canada and Japan. These fifteen countries utterly controlled the world economy. As of 1987, they represented 75 per cent of world trade and 70 per cent of world GDP.[7] In economic terms, the rest of the world almost didn't matter; on such a map China and India would look puny, while Mexico would be virtually invisible.

Indeed the fruits of the industrial revolution were concentrated in these advanced countries, whose GDPs grew enormously, while the rest of the world lagged far behind. These countries primarily traded with one another, and largely ignored the 80 per cent or so of the world's population that lived outside their borders.

To reiterate the central issue: today, these fifteen countries have little inherent growth left within their own economies. Without economic growth, there is no job or wealth creation, and without employment or wealth, politicians are soon out of a job.

As we shall explain in more detail, economic growth in the world's advanced countries is seriously hampered by their aging and, in many cases, declining populations. But the problem is more complicated than that. Even if population is still rising (as it is in the US via immigration), trade, as an engine of growth, is ineffective among nations that are similarly mature and similarly advanced. As economists Baumol and Gomory have shown, the net gains from trade are far greater when it occurs between a developed and a less developed economy, rather than between two comparably developed economies.[8]

Thus, if trading among themselves is no longer the solution because they all have similar strengths and weaknesses, the world's advanced economies will have to search elsewhere for continued economic health. To put it point-blank, the world's leading powers will be able to sustain economic growth only by means of trading partnerships with large developing nations. This fact will drive the realignment of nations as the world 'goes global.'

Until recently, the economic output and potential of these large developing nations were severely underestimated, based on comparing their economic output in terms of their nominal GDP. Then all – the World Bank, IMF, WHO, and UNDP – started using a different index with which to measure the new world economic order. This new index is called Purchasing Power Parity (PPP). Traditional assessments of the size of an economy and therefore its attractiveness as a market were based on how much people earn per capita; on that score, many developing countries were sliding back further and further, and the gap between rich and poor nations was rising. Countries such as China, India, Brazil, Indonesia and Mexico were measuring poorly in terms of per capita income because the denominator (population) was rising nearly as fast as the numerator (GDP denominated in US dollars). Instead of measuring how much people earn, the PPP index measures what they can buy with what they earn. For example, Coca Cola promotes the idea that it takes four minutes of work for a worker in China to buy a bottle of Coke, compared with three minutes in the US. The forecast is that in the next ten years, it will be cheaper for the Chinese worker to buy Coke than for the American worker.

Rank	*Country*	*Economic Output (PPP)*
1	US	11,628,083,000,000
2	China	7,123,172,000,000
3	Japan	3,774,086,000,000
4	India	3,363,960,000,000
5	Germany	2,325,828,000,000
6	United Kingdom	1,832,252,000,000
7	France	1,744,352,000,000
8	Italy	1,621,372,000,000
9	Brazil	1,483,859,000,000
10	Russia	1,408,603,000,000
11	Spain	1,046,249,000,000
12	Mexico	1,014,514,000,000
13	Canada	993,079,000,000
14	South Korea	980,694,000,000
15	Indonesia	779,719,000,000
16	Australia	605,942,000,000
17	Turkey	552,990,000,000
18	Netherlands	520,918,000,000
19	Thailand	510,268,000,000
20	South Africa	510,102,000,000

Source: The World Bank

Figure 1.2: Size of Economies based on PPP (2004)

Using this index, China emerged in 2002 as the second-largest economy (after the US), up from 4th in 1994. It has now surpassed Germany and Japan, and the forecast is that by 2040 (maybe sooner), it will be the single largest economy, surpassing the US. India is now the fourth-largest economy (larger than Germany, the UK and France), and it too has huge potential to grow in the future. India will certainly overtake Japan and become the third-largest economy during the present decade. The PPP index indicates that even other developing nations – like Mexico, Indonesia and Brazil – are becoming much more significant players on the world economic stage than acknowledged ever before (Figure 1.2).

The Population Paradox

For decades now, we have become accustomed to hearing about the world's population crisis. For most, this means one thing and one thing only: the world's population has been exploding at an unprecedented and unsustainable rate.

Indeed, if we look at the statistics from the century just concluded, we can certainly find cause for alarm. The world added by far more human beings to its population in the century than ever before; the global population rose from 1.6 billion in 1900 to over six billion in 2000 (the population would have been even greater in 2000 were it not for the more than 200 million people killed in wars and by governments in the 20th century). Improved medical care contributed greatly to this growth, as life expectancy at birth rose from 30 years to 65 years during the century.

However, there was a big change around the middle of the century. The average fertility level dropped by about 40 per cent in the second half of the century i.e. each woman gave birth to two fewer children – on an average – than in the first-half of the century. This fertility decline occurred earliest and was most pronounced in the industrialized and prosperous countries of the West and in Japan. By the 1970s, the birth rate in many countries had dipped below the replacement rate of 2.1 live births per woman. Today, about half the world lives in nations with sub-replacement fertility. The stark reality is that citizens in virtually every developed nation have ceased replacing themselves.

While life expectancy has been going up steadily for 300 years, the decline in the number of young people is a new and completely unprecedented phenomenon. Developed nations are in an economy-depressing process of 'deyouthing,' and many countries face the prospect of acute population shrinkage. For example, by 2050, Japan's population will shrink by 30 million from its present 125 million population, and Russia's will decline by 42 million from its present 146 million. Europe's elderly (those over 65) will increase from 20 per cent of total population in 1998, to 25 per cent by 2020. By 2030, people over 65 in Germany will account for almost half the adult population, compared with one-fifth now. Fertility rates all across Europe are shockingly low: just 1.15 in Spain, 1.2 in Italy, 1.3 in Germany, 1.35 in Russia, 1.37 in Portugal and 1.41 in Austria (Figure 1.3).

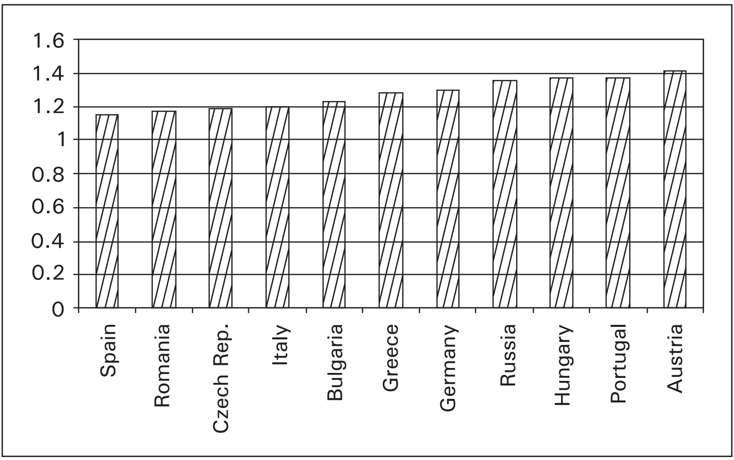

Figure 1.3: The 'Deyouthing' of Europe

While the rate of growth of the population has slowed even in developing countries, their populations do continue to grow. Overall, the world's population is expected to climb to 7.8 billion in 2025. At the same time, the absolute number of people in 'more developed countries' (as the UN calls them) will start to decline in 2017, and the median age in these countries will continue to rise rapidly. Only about 15 per cent of the world's population will be in these more developed countries, down from over 18 per cent today. The world population is likely to peak at 9 billion around 2050 and then start to decline.

So the reality that the world faces is that there will be, in effect, a 'population implosion' in developed countries, while overpopulation and poverty will continue to be the norm in developing countries. Developed countries will have very high median ages, enormous health care burdens and an unsustainably high ratio of retirees to workers. Developing countries will have large young populations with insufficient economic opportunities and high levels of environmental degradation. This widening of the economic divide will give rise to a host of social and political problems. The unemployed, under-employed and disaffected youth of the developing world will represent a huge destabilizing force, and we can expect to see a continued rise in crime, terrorism and a general sense of despair.

There is one sure way for this bleak picture to be brightened and for hope to take wing. That is for the developed and developing world to recognize how desperately they need each other, and the extent to which the solutions for their problems lie in embracing one another. The developed nations have high-tech know-how and infrastructure expertise. The developing world has people, youth, resources and markets with great potential for rapid expansion. A carefully planned, thoughtfully executed program of economic cooperation between the two worlds can result in greater stability and prosperity for both.

A Great Opportunity

Such stability and prosperity constitute the ultimate rationale for globalization, of course, but now let's look more closely at the evolving 'north-south' economic integration that will temporarily interrupt but ultimately pave the way for global cooperation. Over the past 200 years, the world has been organized along what may be termed 'east-west' axis, trade and investment flows largely stayed either above the equator or below the equator, with very little crossover. This is really shorthand to suggest that countries tended to be in close trading relationships only with other countries in similar economic conditions. Thus, developed countries traded mostly with other developed countries; they certainly never attempted any degree of economic integration with countries that were not comparably developed. This mindset was expressed in 1992 by US presidential candidate Ross Perot, who harshly criticized the then proposed North American Free Trade Agreement (which would bring Mexico in the trade pact already established between the US and Canada). Perot warned voters that there would be a 'giant sucking sound' as US jobs flowed to Mexico. He argued that the US should never economically integrate with another country unless that country's standard of living was comparable to its own.

Such thinking is fundamentally flawed, because it ignores the huge potential for synergy that exists when economies with truly complementary strengths and weaknesses get together. Indeed, the world is now becoming fundamentally realigned along the north-south axis, and it is in this realignment that we see the beginnings of a propitious marriage between the developed and the developing worlds. Young countries are seeking out older ones. Countries with low or declining birth rates are aligning with countries with high birth rates. Overcrowded countries are seeing the attractions of those with sparse populations.

There are two axes along which to think about this: growth and prosperity. For continued economic progress (and in order to lift people out of abject poverty), the world needs both growth and prosperity. Most developed countries have high prosperity but low growth, while many developing countries have high growth but low prosperity (Figure 1.4). The surest and fastest way to benefit the largest number of people is to create true synergy by speeding integration between countries from both categories.

A Win-Win Approach

The notion of a win-win approach is finally coming to be accepted by countries where internal growth has almost stopped. Countries that now must seek opportunities elsewhere, in high-growth

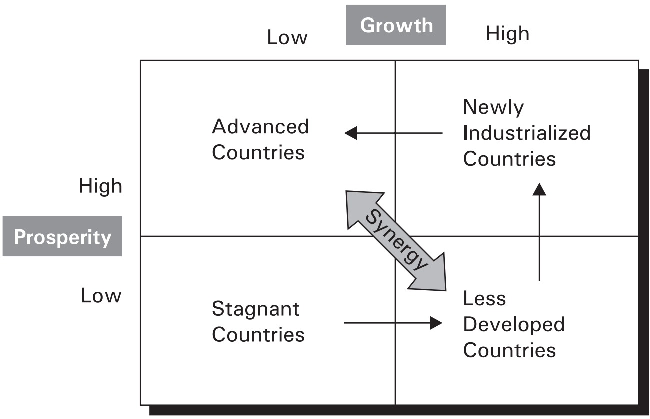

Figure 1.4: Classifying Nations

economies, are beginning to realize the shortsightedness of the old colonial mindset – i.e. a win for them but a long-term loss for the other country. The only viable option today is mutually beneficial arrangements. Developing countries need ways to rapidly increase their prosperity. Advanced countries need growth. In the win-win situation, the advanced country gets its growth by participating in a developing country's domestic market. The developing country gets technology and know-how, which (not capital) make for the key to its prosperity and economic development. Soon it begins to improve its prosperity, primarily through the transfer of product and process technologies.

Indeed, it has to happen. Otherwise, slowing growth in the advanced economies will have dire consequences- the sorts of things we are already seeing with under-funded pension plans and a social security system in critical health. Increasingly, new wealth creation and new job creation will come from emerging economies, and unless two-way partnerships are formed, both brains and capital will be drained from the old world to the new. The high-tech highway leads to developing nations, and the developed nations must make sure that traffic continues to flow in both directions. That kind of full integration constitutes the win-win situation.

Not that it will be easy. The win-win scenario demands a convergence of values, goals, and ideas that has not historically characterized the relationship between developed and developing nations. There is lingering mistrust in the post-colonial world; deep-seated suspicions that developed nations want only to take advantage of the markets and resources that the developing world has to offer. There are political differences – specifically, the Communism that still prevails in China and to some extent lingers in India. In the Middle East and other parts of the world, there is open hostility to the West, to Western values, and to Western-style consumption.

In essence, both sides must understand that they can be winners. The developing world, in particular, must see that it will not be exploited. Perhaps the clearest demonstration of the new paradigm can be found in Japan's rewriting of Ricardo – the theory of vacating markets. Here, outsourcing means not cheap labor and resource extraction, but the development of entire industries in the developing world. As developed nations 'vacate' traditional manufacturing and move up toward 'knowledge' industries, the developing world follows, progressing from agriculture to industry, from industry to service, as India already illustrates so dramatically.

The road to world prosperity is likely to be long, but also fascinating. One of its most interesting features is taking shape right now, in the geoeconomic realignment of nations that we describe as a 'tectonic shift.'

Alternatives to America

On major strategic and international questions today, Americans are from Mars and Europeans are from Venus: They agree on little, and understand one another less and less.

—Robert Kagan[9]

At the outset, let us admit that competition – even armed aggression – between nations is not suddenly going to disappear as the WTO waves the magic wand of globalization. Indeed, the tri-polar North-South alignment that is our subject here is not simply a matter of enlightened economic cooperation. We hope that its evolution will continue in that direction, but, frankly, its origins lie in the economic and political rivalry between the US and Europe.

The US was the dominant economic player on the world stage for much of the 20th century, especially after WWII (WWII). It had many unique advantages: a huge and prosperous domestic market, abundant natural resources, a common language and currency, well-developed infrastructures for the transportation of people, goods and information, an outstanding educational system, strong financial markets and so on. No country in the world even came close to matching these advantages.

Thus, while the US emerged from WWII at the zenith of its power and influence, Europe and Japan were down and nearly out. The US created the Marshall Plan to help rebuild Europe and, at the same time, occupied Japan till 1952 and oversaw the rebuilding of that economy into the formidable competitor that it soon became.

The Europeans, while grateful to the US for helping them get back on their feet, started to assert themselves soon after the end of the war. To counter US dominance in the world economy, they created the Common Market, built on a vision first articulated by Winston Churchill in 1946 in a famous speech in Zurich:

> I wish to speak to you today about the tragedy of Europe... Yet all the while there is a remedy which, if it were generally and spontaneously adopted by the great majority of people in many lands, would as if by a miracle transform the whole scene, and would in a few years make all Europe, or the greater part of it, as free and as happy as Switzerland is today. What is this sovereign remedy? It is to recreate the European Family, or as much of it as we can, and to provide it with a structure under which it can dwell in peace, in safety and in freedom. We must build a kind of US of Europe… The first step in the recreation of the European Family must be a partnership between France and Germany.[10]

As European nationalism became more pronounced after WWII, the US began to look eastward more and more. It began to outsource basic manufacturing to Asia, initially to Japan, followed by Taiwan and then South Korea after the Korean War. Economic policy was heavily dictated by strategic military considerations, which were mostly driven by the Cold War between the West and the Union of Soviet Socialist Republics (USSR)-led Communist bloc. (Indeed, the Cold War itself was an engine of growth for the US, since it required huge spending on defense and therefore the robust health of defense-related industries.)

With the US looking to the Far East and with the Marshall Plan coming to an end, it seemed that Europe could no longer depend on America. They were also worried about the potential threat from Japan, which had surpassed Germany, France and the U.K to become the world's second largest economy. It was time for European nations to take charge of their own destiny.

As a decisive first step, Europe sought to match the US advantage by 're-launching' itself with the Treaty of Rome and the creation of the Common Market, or European Economic Community. Seeing that the game was afoot, the US moved to expand its 'home' market by integrating Canada. This cooperative agreement began in the auto industry in 1965, followed by the signing of the comprehensive CUFTA (Canada-US Free Trade Agreement) in 1989. The US then raised the stakes by bringing Mexico into NAFTA in December 1992. Seeking to trump these moves, Europe created a common currency and made plans to expand east and south. In response, the US has renewed its efforts to create the Free Trade Area of the Americas (FTAA), spanning the northern tip of Alaska to the southern tip of South America. So this has become an iterative process with elements of one-upmanship.

Let's pause to note, though, that the integration of Mexico into the existing free trade agreement between the US and Canada was a watershed event; it marked the first time that developed countries had welcomed a developing country into such an agreement. While some countries within the European rubric (e.g. Portugal) are less developed than others, the differences are not nearly as stark as those that existed between the US and Mexico. Significantly, here is where the benefits of economic cooperation between developed and developing nations elbow aside the competitive posturing of the superpowers. The European Union has now embraced this 'North-South' thinking with its push to include less developed Eastern European countries to the East and Turkey to the South.

Meanwhile, Japan's economic explosion in the last quarter of the 20th century set it at the center of the Asian axis – an axis that extends north-to-south from China all the way to Australia. Moreover, what emerging China offers to already-developed Japan is analogous to what Mexico offers the US. As we are already seeing, however, the huge economic potential of China (and India, too, to a lesser extent) will have the effect of breaking down alignments based on regional trade blocs and of pushing toward real globalization. But we're getting ahead of the story.

Why Regional Trade Blocs Will Prevail in the Meantime

It makes sense to crawl before we walk. It makes sense to first have the Colorado's Uniform Fraudulent Transfers Act (CUFTA), then a NAFTA, and then an FTAA. It makes sense to learn how free trade works on a regional level before mandating it globally. We know that trade is good. It will be better if we work out the kinks. That's why over the past few decades, we've seen the creation of a plethora of regional trade pacts, including The Southern Common Market (MERCOSUR), the Andean Pact, the Caribbean Community and Common Market (CARICOM), NAFTA, the Baltic Free Trade Area (BFTA), the Central European Free Trade Area (CEFTA), the Economic Community of West African States (ECOWAS), the South African Development Community (SADC), Asia Pacific Economic Cooperation (APEC), the Closer Economic Relations Agreement (CER) between Australia and New Zealand, the South Asian Regional Cooperation Council (SARCC) and many others.

Following the same logic, we can expect to see many of these regional trade pacts merge into three major regional economies: the FTAA, AFTA (Asian Free Trade Area) and the as-yet unnamed Europe-centered trade region. To reiterate, each will be organized geographically on a (roughly) north-south axis, and each will demonstrate the dynamic benefits that accrue when developed nations partner with developing nations.

It is also quite likely that these three regional trade economies will become strong economic rivals; we already see some evidence of economic battles among them. But note: in the past, economic wars have often led to military wars. But in this case military wars are highly unlikely because of the very fact that *three* groups are emerging. If it were just Europeans versus Americans, it might be like Russia and the US all over again. But fortunately, a counter-balancing third force is emerging in Asia.

In fact, the world today is in a precariously unipolar state, with one superpower – the US. The rise of anti-American sentiment globally is inevitable in such a world. With rising European assertiveness and the undeniable power of what is happening in China, two rival centers of power are rapidly rising. The combined force (economic and military) of Europe and Asia will not have to be subservient to the US, and the unipolar world will be replaced by a safer tripolar one.

So what about the much discussed World Trade Organization (WTO)? Ultimately, as it mediates trade disputes among disparate nations, the WTO will serve as the great arbiter of globalization. In the meantime, it is in fact *not* a hindrance to regional free trade agreements (FTAs), since it incorporates two key provisions: developed countries can give tariff preferences to developing countries, and countries entering into regional FTAs do not need to extend the preferences negotiated in this context to all other WTO member states.[11]

How Regional Integration Will Play Out

As the rivalry among the three major trade economies increases, each will want to generate a significant domestic base of its own from which it can export. For advanced countries, the domestic base has to be a lot larger than the export base. As an advanced country, the only way to create domestic growth is to de-emphasize national boundaries through free trade agreements. Europe was the first to move in this direction, because growth there plateaued sooner than in the US or in Japan, 25 to 30 years ago. Europe saw that the way for it to grow was to remove the economic barriers between nations and give companies the freedom to invest across national boundaries. As a consequence, there have been numerous mergers and acquisitions in industry after industry all across Europe – deals not only sanctioned by governments but, in some cases, financed (at least in part) by them. This effective erasure of national boundaries has successfully created a more efficient, larger domestic market for companies in all of Europe's member states. Ultimately, this process leads to the kind of full economic integration now underway in Europe, with *de facto* free movement of money, people, products, resources and information. It creates domestic growth as well as improved products for the world market. At the same time, there is a protective tendency is to create a 'fortress' around the trade bloc, which means only intra-bloc companies can participate in the market.

In fact, competition will encourage each of the three trade blocs to create its own fortress. The size and scope of the enlarged regional market will foster the notion that trade outside the region is unnecessary: a notion that eventually will prove illusory. An unwillingness or inability to export outside the region will make companies within the trade bloc fatally vulnerable to competitors that become truly global.

For now, however, the division of the world economy into three trade blocs seems a certainty. Given how far we have already come, and the dynamic that is already in motion, where is this transition headed? The broad outlines are already quite clear:

- ❑ NAFTA will expand to include all of the Americas – North, Central and South, as well as the Caribbean nations and even Cuba (post Castro) – in the FTAA, which will be led by the US, Canada and Brazil (in that order).
- ❑ The European Union will expand to include Eastern Europe and Russia, in a free trade zone led by Germany, France and Russia (in that order).

- Almost all Asian countries will come together (with the exception of countries in South Asia), including Australia and New Zealand, in a free trade zone that will be led by China, Japan and South Korea (in that order).

Note that it is the economic coalition and integration of one advanced and one large emerging economy that is likely to create growth in each bloc. Also, while the developed economies of the US and Germany will lead their coalitions, our forecast is that it will be China that will lead Japan and South Korea.

Who is Left Out?

Two categories of countries are in danger of being ignored or even shunned from entry into one of the three major economic alliances: ideology-driven nations and 'Fourth World' countries.

As for the first group, any country that is ideology-driven today is likely to be a pariah. Today, ideology just does not sell well. After WWII and all through the Cold War, ideology used to be a great 'sales mechanism' that countries could use to align themselves with one group or another. The ideology might have been political (for example, Communism), religious (Christianity or Islam), isolationist (North Korea or Burma, now Myanmar) or even social or cultural (Latin America). Today, ideology has been replaced in much of the world by *economic pragmatism*. Still, however, in countries like Israel, the Arab states, and many Central African nations, ideologies remain obstacles in the path of economic growth.

Formerly Communist countries have rapidly shed their ideological baggage. Russia is moving toward a market economy, followed by the other Eastern European countries. China is undergoing the same metamorphosis silently; while it does still have single-party rule, the Chinese government is fervently pursuing market-based economic reform. A similar ideological change has taken place in India, which has moved away from Fabian socialism to embrace a free-market vision. Change is coming even to the Middle East. The Gulf States, such as UAE, are booming, and Turkey is at the cusp of major economic transformation. Cuba is likely to be integrated with the North American economy. The most dramatic example of this is Communist-ruled and formerly isolationist Vietnam, which we believe will be totally integrated into the Asian-Pacific economy.

A second category of countries that have little to offer by way of either import or export potential are what we call 'Fourth World' countries. These countries – typified by Nepal, Sudan, Rwanda and Malawi – have the misfortune of being so poor that they represent an economic burden rather than an opportunity. Their populations are too small to be attractive as potential markets. They are unlikely to be integrated for quite some time, unless a wealth of natural resources tempts investment by advanced countries.

Who Joins Whom?

The north-south realignment we foresee will, by definition be influenced by geography. In fact, the pressure of proximity will create some strange and perhaps wonderful alliances. For example, Australia and New Zealand are discovering that despite their overwhelmingly Caucasian populations and Western value systems, their destiny lies in fostering ever-closer linkages with their Asian brethren. Similarly, a hoped-for trade pact between India and Pakistan has the potential to ease the bitter tensions between these sometimes-hostile neighbors, and lead to amicable relations and mutual economic development. The same holds for North and South Korea, and for Ireland and the UK.

Yet let us consider a few interesting examples where the rules of strict geography might be violated.

The UK

In a fascinating development, the UK has basically been relegated to the sidelines in the EU theater. The European Union (EU) – as a bloc – is primarily driven by Germany, in close partnership with France. Talk about strange bedfellows; when the Germans and the French can get together in this manner, anything is possible!

Neither of them is willing to cede much political power to Europe's third major economic entity, the UK. The UK thus has a tough time crossing the English Channel, even though it is formally part of the Union. Reflecting its own ambivalence towards Europe, the UK has so far refused to join the European monetary union, continuing to use its own currency.

In fact, this has been a major source of contention between the UK and Europe. Each trade bloc needs to have its own common currency so that members do not have to deal with currency fluctuations. Margaret Thatcher, a true 'Euro-skeptic,' resented the unwillingness of the EU to embrace the pound as the natural *de facto* common currency. The Germans didn't want it, and they toppled the pound in February 1993. The British saw that as a sign to that their future lay less with Europe and more with the Americans.

In terms of both investment and trade, the UK economy is becoming tightly integrated with the US. The amount of US FDI (foreign direct investment) assets in the UK alone is larger than US overseas assets in Asia, Africa and the Middle East combined. International mergers and acquisitions are commonplace. British Petroleum bought out Amoco and, more recently, ARCO. Vodafone and Virgin Atlantic are likely to make significant investments in the US.

Politically, it is already evident that the US and the UK walk together (just like the Germans and the French), regardless of which political parties are in power on either side of the Atlantic. Margaret Thatcher and Ronald Reagan were ideological allies who greatly influenced one another. The close relationship continued under John Major and Bill Clinton, then under Tony Blair and Clinton, and now under Blair and George Bush.

Spain & Portugal

Since Germans are driving the evolution of the EU, the power base is moving more towards northern Europe, which is why the Spanish and Portuguese are becoming somewhat nervous about their future. As a result, those countries are forging closer ties with Latin America. Going forward, in fact, we are likely to find that Spain and Portugal will align themselves more closely with the UK and the emerging FTAA than with the EU. Their colonial ties with the region, and resulting cultural and language similarities, make this a very likely outcome. At the same time, these countries will remain in the EU fold.

The Middle East

If and when the Middle East is able to move beyond its ideological battles and embrace economic pragmatism, it will find a natural home in the European (including Russia) trade bloc. We include even Israel in this prediction. While some might expect that Israel to be more likely to ally with the US, in fact the historical linkages of Israel's immigrant population are much stronger with Europe and Russia.

Africa

The future of Africa is uncertain. Northern Africa (above the Sahara) is similar to the Middle East; this includes Morocco, Algeria, even Libya. On the other hand, South Africa has a more advanced, liberalized economy and has given signals that it would like to align with one of the trade blocs. We believe that it is more likely to align with the Europeans than with the Americas. The same is true of Zimbabwe and other Southern African countries, many of which are already in trading relationships together (similar to MERCORSUR in South America). For these countries, the value system, culture, regulatory processes, etc. are very comparable to Europe's.

Chaotic Middle Africa will continue to be 'no man's land.' However, any country there that announces that it wants to liberalize and become a free-market economy will see quick interest from the Europeans, especially if it is resource-rich – a situation developing right now in Nigeria.

India

'India and the US – nations that barely interacted 15 years ago – could turn out to be the ideal economic partners for the new century.'

—'The Rise of India,' *Business Week* (2003)

As recently as ten years ago, India was in the uncomfortable position of not being needed or wanted by its Asian neighbors. The border of the Association of South East Asian Nations (ASEAN) bloc grew to include Laos, Cambodia, Vietnam and Burma (Myanmar), but stopped there. India is not wanted or needed there, because Asia already has the huge China market. Ethnically and culturally, South Asia is very distinct from East and Southwest Asia. India is a poor fit in the European trade bloc as well, because Europe is now absorbing many East European economies that can offer many of the same advantages that India has – like low wages and an educated workforce – and they are neighbors with similar cultures, religions, and so on.

So rather than remain isolated, India is moving into a strategic partnership with the US that includes both military and economic interdependence. US companies are already heavily outsourcing their call centers and business process outsourcing (BPO) to India. Indians in the US as well as companies in India are developing software; India currently exports more than $15 billion of software a year, mostly to the US – a number that is expected to grow to $50 billion a year in less than five years. If that sounds unrealistic, think about how little trade the US used to have with China, and how much it trades now.

We believe that India will supplant China as a major economic partner of the US; it will likely invest in the US in mature industries such as textiles, gems and jewelry, leather goods, and granite and marble. Rather than shipping out raw material, India will export finished products. India is the largest diamond cutter in the world; 90 per cent of the world's diamonds are cut and polished there. It is one of the largest leather goods exporters and ranks number two in exports of granite and marble. Since many of these have already been outsourced from the US, there will be no significant negative political impact.

India is also a huge agriculture producer, and the largest bakery in the world is India's Modern Bakery, now owned by Unilever. India is the largest producer and consumer of milk and dairy products, and is now creating a large dairy industry through cooperatives and companies such as Amul. Brands such as

Marlboro are likely to be 'Made in India' or 'Made in Brazil' – not just raw tobacco, but the entire product.

Human capital is one of India's major resources. The Indian government has primarily targeted three areas of relevance here: software and information technology, R&D and management talent. For example, Cisco is investing in India to create tens of thousands of Cisco-certified IT professionals; IBM, Oracle and Microsoft have made similar commitments. As a result of its long-standing emphasis on higher technological and scientific education, India is becoming recognized as a great place to do R&D, and many major laboratories are moving into the country. In pharmaceuticals, India is already enjoying a reverse flow: patents generated by Indian scientists are being licensed to the world.

Russia

The alignment of Russia does not violate geography, but Russia's journey toward a market economy is so interesting that we can't resist mentioning it.

Communism was on its way out long before Gorbachev. Leonid Brezhnev's successor, Yuri Andropov, had already decided to liberalize the economy while sustaining the one-party Communist system (which is exactly what Deng in China did subsequently). However, Andropov suddenly died after just one year on the job, and Mikhail Gorbachev came in and essentially reversed the sequence: he ushered in an era of *glasnost* or political openness, while doing little on the economic front, other than giving signals that he wanted to align more with the Americans and British. Ultimately, the more economically pragmatic Boris Yeltzin and then Vladimir Putin, who had clearly indicated that Russia's future lies with Europe, replaced him. This was starkly illustrated when he joined France and Germany in presenting a united front opposing US action in Iraq.

We believe that Russia will definitely align with the Europeans. With the Putin government now, the deal seems pretty much done. The early indication of economic alignment is always trade; the US only accounts for about 8 per cent of Russia's imports and exports, while Germany alone accounts for 9 per cent of exports and 14 per cent of imports.[12]

The End Game

We believe that by 2025, most countries of the world will be loosely or tightly aligned with one of the three trade blocs. The table below provides details of each trade bloc in terms of its constituents. The population trends (Table 1.1) clearly indicate that the American bloc will have an advantage going forward.

Is the New Alignment a Good Thing?

The transformation of the world into three mega economic blocs is certainly not without controversy. Many are concerned that this move towards self-contained economic blocs comes at the expense of 'true' globalization. But as we have argued, regional trade paves the way for global trade.

In any case, the reality right now is that the forces propelling economic blocs based on shared geographies, common heritage, complementary economic characteristics, and rivalry with other regions, are more potent than those propelling globalization. While we expect that the WTO will be successful in gradually lowering barriers around the world, its impact for the immediate future will continue to be overshadowed by the rise of economic blocs.

The ultimate yardstick by which this development needs to be assessed is a simple one: will it lead to a more rapid and broader uplift of the economic fortunes of a larger number of people? On this score, the answer is likely to be a resounding 'yes.' Why? Because it will help solve the problem we put forward at the beginning of this chapter. It will create, promote, and sustain economic growth.

One key to this affirmative vision is, as we have noted, the north-south integration that will characterize the evolution of the three economic blocs. Until recently, trade blocs were, in effect, clubs for wealthy nations. Members jealously guarded their

Table 1.1: Population Trends

	Trade Bloc	*Population in Mid-2003*	*Population in 2025 (projected)*	*Population in 2050 (projected*
Americas	North America	323,000,000	387,000,000	459,000,000
	Central America	144,000,000	192,000,000	230,000,000
	South America	358,000,000	452,000,000	507,000,000
	Bangladesh	146,700,000	208,300,000	254,600,000
	India	1,068,600,000	1,363,000,000	1,628,000,000
	Pakistan	149,100,000	249,700,000	348,600,000
	Sri Lanka	19,300,000	21,700,000	21,400,000
	UK	59,200,000	62,900,000	63,700,000
	Total	**2,267,900,000**	**2,936,600,000**	**3,512,300,000**
Europe	Africa	861,000,000	1,289,000,000	1,883,000,000
	Western Asia	204,000,000	308,000,000	418,000,000
	Europe	727,000,000	722,000,000	664,000,000
	Total	**1,792,000,000**	**2,319,000,000**	**2,965,000,000**
Asia	Southeast Asia	544,000,000	697,000,000	792,000,000
	East Asia	1,519,000,000	1,688,000,000	1,597,000,000
	Oceania	32,000,000	42,000,000	50,000,000
	Total	**2,095,000,000**	**2,427,000,000**	**2,439,000,00**

Source: PRB 2003 World Population Data Sheet (http://www.prb.org/)

exclusivity and subjected aspiring nations to stringent tests that essentially measured how similar new members would be to old ones. That insular mindset, fortunately, has been broken, most dramatically when the US and Canada took the bold step of integrating with Mexico under NAFTA. In the process, a new paradigm was established: partnerships between developed and developing nations. And the seemingly intractable problem – where mature economies would find future growth opportunities – was simultaneously solved. Going forward, we shall see increasingly rapid integration of a new and diverse set of members. This will pay rich dividends on all sides, since north-south integration, by reaching out to developing nations, offers far more potential to lift living standards than east-west integration, which simply raises economic efficiency for companies and lower prices for consumers.

(It bears repeating that, though we call them trade blocs with a north-south delineation, the three areas are not *strictly* geographical entities. And when geography is violated – as in an alliance between the US and India, or between Europe and Africa – the same overarching purpose is served: the mature and fully developed economies of the West are finding new growth in developing nations, and those emerging nations are, in turn, being given the opportunity to develop and prosper.)

A second and equally important consequence of the creation of these three mega powers is that the world has the potential to be a much more stable and peaceful place than it has been at any time in the past. In a unipolar world (such as exists currently), the tendency towards unilateral action – however well-intentional – invariably breeds resentment and foments rebellion and even terrorism. In a bipolar world, with two evenly matched rivals, there is real potential for destructive competition – economic or military. In a tripolar world, however, a high degree of stability is built in. If any one of the three powers becomes overly belligerent, it will likely be countered by a united front of the other two. A tripolar world thus offers an inherent deterrence against military or economic adventurism.

Given that the trilateral powers will have little to gain and much to lose from aggression, it follows that resources will in all probability be diverted away from military spending and towards economic development. In a world that succeeds in filling stomachs and wallets, minds are less likely to be filled with fundamentalist ideology or the politics of jihad. Illiteracy will be reduced. Poverty will be reduced, not through aid but through job and wealth creation.

In his landmark book *1984*, George Orwell envisioned a world divided into three super-states, each a totalitarian regime ('Big Brother') and all perpetually at war with each other:

- Oceania: The Americas and England
- Eurasia: Russia and Europe
- Eastasia: The Far East

On the other hand, Hettne and his co-authors have argued that 'new regionalism' (defined as a multidimensional form of integration that includes the economic, political, social and cultural levels) will contribute to peace, development and ecological sustainability.[13] Our view is much more closely aligned with this perspective than that of Orwell. The fact is that past approaches based on shunning trade, trading only with similarly developed trade partners, or relying purely on multilateral trade agreements to open markets have simply not succeeded in lifting enough people out of poverty; for the most part, they have been ineffectual or simply made the rich richer and the poor poorer.

Structure of the Book

The first half of the book – chapter two to chapter six – is historical in nature. Chapter two revisits the 'magic of Ricardo' showing how free trade between countries results in mutually beneficial outcome. Succeeding three chapters trace how each of the three trade blocs have evolved to the point where they are at now. Chapter six looks at some of the countries that are not yet part of the design of the trade blocs.

The second half of the book focuses on what each trade bloc must do to make itself globally competitive. Chapter seven provides an overview of the needed changes, and chapters eight through eleven deal, in turn, with each of the four key aspects of strong bloc integration. The book concludes with chapter twelve, which addresses the obstacles to this emerging realignment, and how they can be overcome.