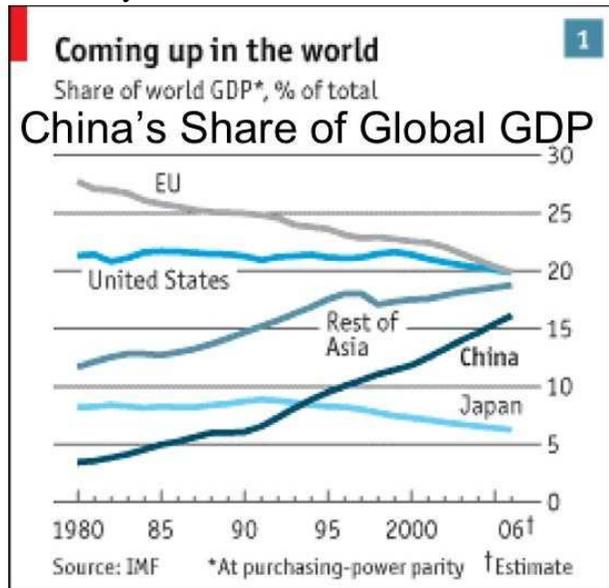


The Global Economy... Why It Matters To You

Chuck Thomas, 4/8/07

In the US, we tend to think of China as a source of inexpensive manufacturing. We think of India as where our service and support calls end up when we dial that toll-free customer service number. We worry that our jobs are flowing out of the country just as goods are flowing in. We worry that cheap labor is over-taking our economy and that there is an inexorable downward spiral of fewer good jobs with good pay in favor of low-end jobs with poor pay prospects. We are, in short, afraid of the global economy just as surely as we are eager participants in it through our purchasing habits. Could it be, however, that the globalization of economies is a good thing that offers immense opportunities that, as they become realized, provide benefits far greater than the short-term agita that is felt?

Today China consumes twenty-five percent of the world's production of steel and half of the world's cement. China's sustained economic growth has positioned it as the world's second largest economy (\$10 trillion GDP versus the US's \$13 trillion GCP), when measured in purchasing power parity (PPP). Its current 5 year plan is for a 45% growth by 2010, according to the CIA's World Factbook. The per capita GDP is now \$7,600. 10% of the population lives below the poverty line, as opposed to 12% of the US population. What is happening in China is the creation and growth of a true and dominant middle class, one that will increasingly have disposable income to spend. While that bodes well for China, it bodes well for the US and the rest of the world as well. Why? There are several reasons.



China's population is four times that of the United States, and as its middle class grows and prospers, it creates the world's largest potential consumer market. That provides a market for goods and services originating in the United States. As China's growth continues and its median income rises, the pressures of rising wages cause China to outsource some of its jobs to lesser developed areas. For example, China's Lenovo bought IBM's personal computer business, and the ThinkPads that you may want to buy from IBM are actually from Lenovo. They are manufactured, not in China, but in Taiwan. It is too expensive, implies Lenovo, to produce them in China.

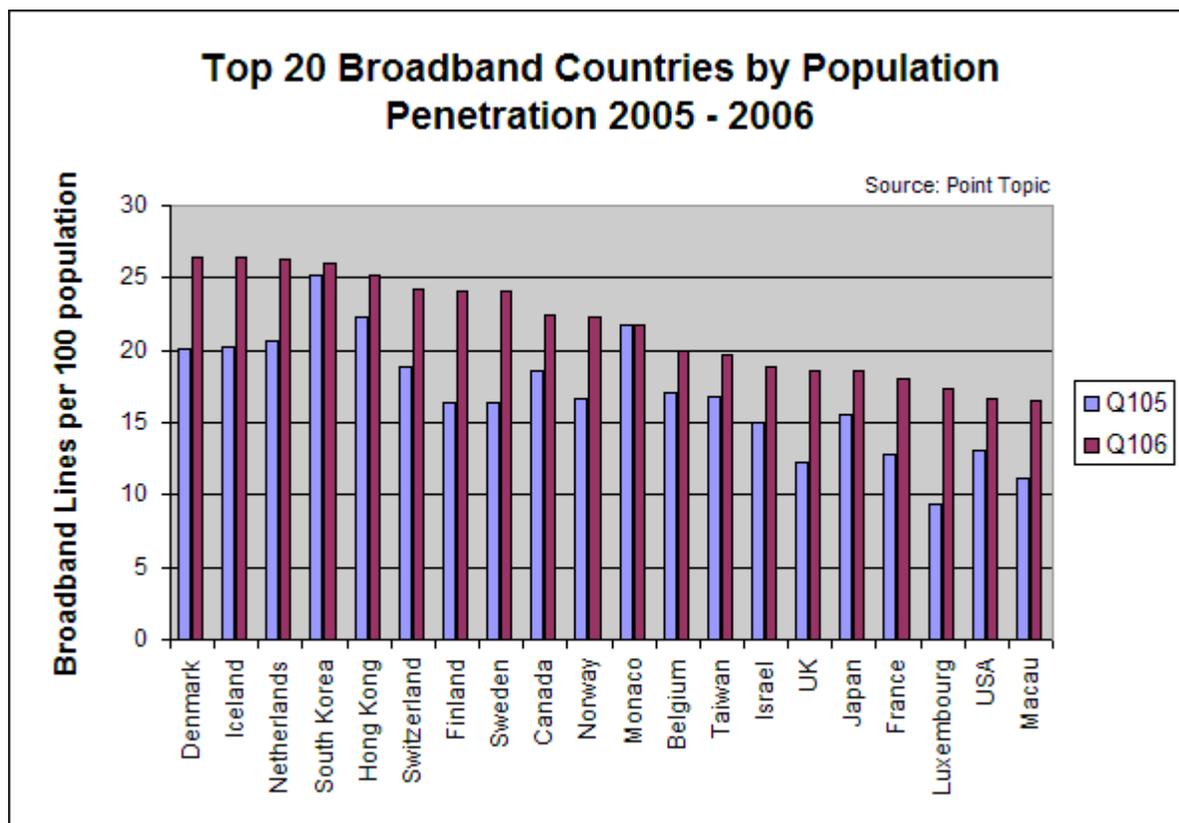
Tom Friedman, in his book, "The World is Flat"¹, describes the triple convergence of the new global economy: the creation of a global playing field; global companies losing walls, floors, and buildings; and new opportunities for individuals to compete using the new "flat" rules. Friedman implores us to embrace the flattening and to adapt to it, not just to survive, but to thrive in the new environment. He says that "flattening is progress", and points out that the changes are rapid. He points to 10 forces of flatness, beginning with the end of the Cold War and its barriers. He includes

¹ Friedman, Thomas, "The World is Flat", Farrar, Strous, & Giroux, April, 2005.

the technologies we are all now familiar with: Internet browsers, digital/mobile/personal/virtual – ubiquitous connectivity, supply chaining/logistics/workflow software, outsourcing, and off-shoring. He asks where our brands are located. Are they global? What does it mean if a company is headquartered in the US but does most of its business abroad?

What do we need to successfully compete in this global economy? It is clear that we need better education from the elementary through the secondary levels. We need to prepare our future working population to be effective in their future endeavors.

We need better broadband connectivity. In the past year (March 2006 to March 2007), US broadband penetration fell from 17th in the world to 20th in the world. Even Luxemburg has greater broadband penetration.



Our government’s policies must become more globally aware. Our government has clung to two sets of policies that hamper globalization of the economy: extraterritoriality and unilateralism.² The former refers to such acts as The PATRIOT (Providing Appropriate Tools Required to Intercept and Obstruct Terrorism) Act and Iran Non-Proliferation Act (INPA). The PATRIOT Act impacts or may impact the ability of foreign banks to operate in the US. The INPA permits the US to unilaterally the scope of export controls beyond what have been negotiated and agreed multilaterally. The latter, unilateralism, refers to taking unilateral retaliatory or sanction actions against countries or companies based upon exclusively US assessments. This policy casts doubt upon US support of multilateral trade agreements. Our government must abide by its treaty obligations concerning trade and finance.

² European Commission 2006 Report, “United States Barriers to Trade and Investment”.

The government also maintains a significant number of trade barriers in industries such as agriculture, textiles, leather, jewelry, ceramics, trucks, and railway cars. The US also poses a significant set of non-tariff barriers in the form of regulations for industries such as pharmaceuticals, industrial gases, and wines. Improvements are needed to achieve international standardization for labeling, environmental protection, safety, and the like. There are a number of other areas, including subsidies such as farm subsidies, that impose barriers.

Businesses across the globe are investing in and acquiring foreign entities at a record pace. In the first quarter of 2007, Indian businesses have spent over \$10.7 billion to purchase 34 foreign companies. Russian businesses topped this by spending \$22.4 abroad during the period, and they are now bidding to buy Italy's state airline, Alitalia.³ Business has long abandoned national thinking in favor of global thinking, leaving multi-national and international in the dust.

The US has the 35th worst public debt to GDP ratio in the world⁴, with \$8.6 trillion in debt, or 64.7% of the 2006 GDP. It is the largest debt in the world, about 23% of the total global debt in 2005. Our debt matters. First, it matters in terms of national interest. As of February, 2007, foreign holders of US Treasury Securities held over \$2.1 trillion dollars.⁵ Foreign countries use the dollar as the basis for maintaining the value of their currencies. The US bond and currency markets are in a precarious situation because Japan, China, and particularly the oil-producing countries talk of diversifying their currency reserves away from the dollar, to other currencies. If those countries lost their appetite for dollars, the US dollar could go into a freefall with all of the resulting economic stagnation. The US simply must stop building its public debt and then begin to reduce the amount of debt. The reason the dollar is the basis of world reserves is that it has been the safest currency, backed by the full faith and credit of the government. But that margin of safety has diminished and governments are experimenting with other currencies.

As a businessperson, what do you do? It is clear that there is a massive market with growing potential when a global perspective is taken. Create goods and services focused on the rising Chinese or Indian middle class. Market your goods in Russia and the Middle East. Build alliances with EU-based firms that are prospering moving goods across borders. Use the Internet to touch your new customers and let them touch you. Globalization of your business is smart not only because of the broadened scope of opportunity, it is a risk reduction strategy.

³ From The Economist, April 7-13th, 2007 edition, "Globalisation's (SIC) offspring".

⁴ From Wikipedia, "United States Public Debt".

⁵ US Department of Treasury website, <http://www.ustreas.gov/tic/mfh.txt>