

Comparing and contrasting structural change in the U.S., the European Union and Asia - By Robin Trehan
2007-10-22

The global economy has done much to change how financial institutions work in what is termed an expanding circle of systemically important countries (SIC). It has been observed with some interest that the emerging-market countries are bringing about significant changes in how the developed countries are doing business, and how it is affecting the balance of economic power. A controversy has emerged in which there is a perceived impending shift away from the US, while others believe the US will retain economic superpower status.

The eleven emerging markets considered SIC at this time are China, Argentina, India, Mexico, Russia, Turkey, Indonesia, Korea, Saudi Arabia, South Africa, and Brazil. However, this list is far from complete and final, and may actually be made up of as many as 30 countries, depending on the economic issue. Some countries, which may in themselves not be SIC but membership in the European Union, for example, gives them more influence in the global economy.

Because of this influence, there has been a recent need to monitor governance in SIC lest mismanaged economic power adversely affect the rest of the global economy. Economic policy makers for these and similar countries typically make decisions with the country's interest in mind. In a global economy, policy makers in SIC as well as developed countries must also consider how such policies affect other countries and seek to coordinate their activities and plans accordingly based on a common point of reference or framework for each issue that crop up.

To illustrate, the imbalance between countries that have and countries that have not has put a strain on the global economy because it affects the exchange rate and the flow of goods. One example is rate of imports by the US, which considered unsustainable. Such activity also tends to encourage overproduction, which in the event of a sudden fall of demand for these products could spell considerable ruin for the producing country. It is therefore no longer a question of simple market forces because it deals with more than a single economy.

The growth of international reserves is also of concern. In the case of Asia, especially Japan, the doubling of the foreign exchange reserves in the continent may have addressed the problem of short-term external debts, but may have adversely affected the currency reserves of other areas in the global economy. Because everything is connected, such an economic policy has to be considered from a broader context than merely continent wide.

One other consideration is the increased representation and participation of SIC and developed countries in any policymaking would go a long way to promoting stability and growth. One such venue for participation is the International Monetary Fund (IMF) executive board and in the voting shares. Such a restructuring would ensure that the IMF retains its legitimacy as a globally centered agency for policymaking. Aside from providing a platform for SIC which have little or no influence in global positions, it is suggested that countries in the European Union, as a collective group, should be reduced to one seat to solidify its base as a single organization.

These are just two generalized ideas of how the global economy has affected the US, countries of the European Union and Asia. It does illustrate, however, that while the economic power is still in the hands of developed countries, the potential for good and harm from the SICs are considerable, and must be addressed to ensure that the global economic structure does not unravel at the seams.

Robin Trehan is an M&A Expert. He can be reached at robin@tafunds.com

This article comes from Hotel News Resource

<http://www.hotelnewsresource.com>

The URL for this story is:

<http://www.hotelnewsresource.com/article29759.html>

© 1998 - 2007 Nevistas and the author.

Brought to you by Hotel News Resource

Distribute your news on our Network

See what all the buzz is about at:

http://www.hotelnewsresource.com/Info-news_account_info.html