

ICI VIEWPOINTS

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Conducting Business in a Rapidly Changing World

By Jeanne Arnold

The global operating environment is evolving and it is critical for corporations to understand the changes afoot if they are to succeed in the 21st century, said Kevin Kajiwara, co-president of Teneo Intelligence, a division of global advisory firm Teneo. Speaking on the final day at ICI's [58th General Membership Meeting](#) (GMM), Kajiwara gave an overview of the economic and political shifts taking place around the world during his session, "Geopolitical Risks and the Global Economy." After the overview, he engaged in an insightful question-and-answer session with Tom Faust, chairman and CEO of Eaton Vance Corp.

It's the End of the World (as We Know It)

The post-Cold War world that most CEOs of multinational corporations are accustomed to—one where the United States is the dominant power and calls the shots—no longer exists, said Kajiwara. That unipolar world has been replaced by one where no single country can meet the challenges of global leadership. This is not the result of the actions of any one U.S. president or the results of a single world event, he said, but of a number of other forces, including:

- the inability and unwillingness of the United States to be the world's policeman;
- the increasing inability of such institutions as the International Monetary Fund and UN Security Council to adjudicate global disputes;
- the rising number of countries looking to increase their influence, especially China; and
- the changing nature of globalization.

This last force is especially important for businesses to understand, Kajiwara said. Though globalization has benefitted both developed and emerging markets, the primary beneficiaries have been the United States and its multinational corporations, because "globalization wasn't really global," he explained. "It wasn't the adoption of a universal set of norms, but instead the spread and imposition of Western market values and of the regulated free market on other countries and systems."

In a world where there is no single leader, he continued, countries such as China and Russia are pushing back on the traditional concept of globalization. In looking to exert influence on the world stage, some of the key tools they're using are state-owned enterprises or sovereign wealth funds—organizations that actually may be more focused on achieving their country's political and economic goals than on maximizing profits and investor returns. This makes it difficult for U.S. businesses—which operate within a free-market paradigm—to take advantage of the opportunities in these emerging economies, given the threat that the interests of investors could be subsumed by the interests of the state.

As Goes China and the United States, So Goes the World?

Moving from the changing global operating environment to individual countries, Kajiwara began by examining one of the most influential countries in the world: China. "Make no mistake—China has gotten very rich under the current global order, so it doesn't want to completely upend it," he explained. "Yet the message the country is sending is that it intends to be a rule maker as much as a rule taker." The big question, he said, is does the United States push back or does it become stakeholder in China's success as well?

So far the indications for cooperation are not that great, he said. For example, the Trans-Pacific Partnership, which is a large trade

agreement being negotiated by a U.S.-led 12-nation regional trade bloc, involves many countries within the Asia-Pacific region—but it doesn't include China. Meanwhile, China is working to create the Asian Infrastructure and Investment Development Bank, which is essentially a competitor to the World Bank—but it did not invite the United States to participate, though some U.S. allies, such as the United Kingdom, have joined.

"The China-U.S. relationship is the most important bilateral relationship of the 21st century," Kajiwara stated, "and however that plays out will have ramifications for the region and the world."

Risks in the Middle East and Europe

Shifting to the Middle East, Kajiwara started off with some good news for the region. Despite the plethora of geopolitical risks in the area, he said, there is bright spot: Iran. The country, he said, presents a "unique opportunity that won't come along again in our lifetime—the emergence of a young, educated middle-class market of 80 million people who have a pent-up demand for 'stuff,' in a country that is the most democratically disposed."

Despite this, the country also is full of political risks, ranging from existing sanctions on financing activities suspected of supporting terrorism, to counterparty risk, to questions about the rule of law. But, he insisted, it's not a question of whether businesses want to get in—it's a question of how and when.

Continuing his focus on the Middle East, Kajiwara spoke about the strained relations between the United States and Saudi Arabia, as well as some of the ramifications of the Syrian civil war—and its effect on Europe. "We're seeing the biggest humanitarian and security crisis since World War II developing in Europe" because of ISIS and the Syrian civil war, he said.

The mass migration from the Middle East northward was one of the two political risks in Europe that Kajiwara discussed. The other one was "Brexit"—the possibility that the people of Great Britain will vote on June 23 to leave the European Union. "Ultimately, I think Britain will vote to remain," predicted Kajiwara. But expect some fallout on the continent as a result of the vote, he warned: "The European Union has a huge incentive to play hardball with Great Britain because it doesn't want it to look like other EU states can get a better deal by leaving the European Union."

Russia and the United States: It's Complicated

In the question-and-answer portion of the session, Faust asked Kajiwara about the future of U.S.-Russian relations. "If you ask any U.S. general what the United States' number-one threat is, he or she would say Russia," stated Kajiwara, who added that the ability to take any measures against Russia is restricted by Europe's dependence on Russian natural gas. The world has an interest in making sure Russia doesn't collapse, he explained—not only because stability is in everyone's best interest, but because having a fairly strong Russia is a good counterbalance to an increasing Chinese military presence through central Asia. Kajiwara added that the future of its relations with the west is further complicated by the fact that "Russia has a president, but not a presidency. If Vladimir Putin was hit by a bus tomorrow, it is unclear who would take over. And any country that has been dependent upon one genius supplanting another genius doesn't do well."

United States Is Still the Best Bet—for Now

Despite the instability that surrounds it, said Kajiwara, "I would ultimately make more of a bet on the United States than any other country in the world, because we have a unique set of values." The United States is the only country founded on an ideal, he explained, and its free-market approach has a history of providing opportunity for those who take chances. "It is okay to drop out of Harvard at 19 years old if you have a great idea," he said, "because we have a phenomenal capital markets ecosystem that will find, champion, and finance you." The United States also has a number of other advantages, including solid rule of law, strong intellectual property protections, bankruptcy provisions that enable people to fail and try again, and a large consumer market, which provides "the scale to experiment."

Kajiwara ended the session with some words of advice: as the United States looks toward the future, its people need to ask what they want to achieve and prevent. The United States doesn't seem to have a clear sense of purpose now, he said, which is "creating uncertainty, [so] other countries are hedging and acting accordingly," explained Kajiwara. America's allies and adversaries need to know that the country stands behind its promises, he concluded. "Otherwise, China, Iran, and others might decide that defying the United States is a lot less risky."

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