

The Rise of the Multi-Polar World

accenture

High performance. Delivered.

• Consulting • Technology • Outsourcing

Contents

Foreword	1
Executive Summary	2
1. Introduction	4
2. Winning Talent	7
3. The Way the Money Goes	12
4. The Battle for Resources	17
5. The Emerging Consumers	21
6. The New Map of Innovation	25
7. Achieving High Performance in a Multi-Polar World	30
References	32

Foreword



William D. Green,
Chairman & CEO, Accenture

Globalization, a force that has been shaping the political and commercial world for most of our working lives, is entering a new and more complex phase. It is no longer a concept exported to the emerging world by the traditionally-dominant economies of the West. Emerging economies have grasped globalization, packaged it up, and are, every day, sending new versions of it back to the West.

This Accenture analysis—based on original research as well as our experience working with organizations around the world to help them achieve and sustain high performance—attempts to identify and understand the forces creating this new era of globalization. Our analysis focuses on the fast-evolving economic geography of what we call 'the multi-polar world'. It is essential reading for both business and government organizations striving to achieve high performance in an increasingly complex global environment.

As with all far-reaching change, this new world brings with it massive opportunity—as well as risk. We see economic, cultural and political power growing rapidly in nations that are only beginning to unlock their potential. The rise of China and India is well documented—and indeed at

Accenture we have significantly increased our presence in these economies, which are likely to become even more important in future decades. The stories of Mexico, Russia, South Korea, Brazil and the emerging economies of Eastern Europe are perhaps less familiar, but they are increasingly crucial to understanding our world. Half a billion new workers and perhaps a billion new consumers in emerging markets will truly change what it means to compete on the global stage.

We are at a critical moment as a global economy. Move one way, toward greater freedom of trade, the possibilities of new technologies, the promotion of education and skills training on a vast scale...and the opportunities seem endless. Step the other way, toward the retrenchment into tariffs, a rejection of the newest new things and a reluctance to change the social and cultural patterns of generations...and those opportunities could be lost.

The multi-polar world has been born out of—and is thriving on—competition on an unprecedented scale: new markets are open not only to traditional players but also to local and resourceful operations that understand them more closely.

In order to achieve high performance, businesses will need to continually refine market focus and position, and develop distinctive capabilities that can adapt to shifting sources of competitive advantage, as well as harness innovation to create new markets. At the same time, of course, the challenge of ensuring a corporate culture that embraces diversity will be more acute. Having processes and core values that are universal will be essential as organizations operate across borders, within different cultures and with more dispersed structures.

'The Rise of the Multi-Polar World' explores the implications of this global re-balancing for multinationals and public sector organizations in their quest for high performance. We hope it will stimulate understanding, debate and opportunity.

A handwritten signature in black ink, reading "W.D. Green". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

William D. Green,
Chairman & CEO, Accenture

Executive Summary

The changing balance of economic power

The contours of the global economy are changing. The collective economic dominance of the United States, Europe and Japan—the so-called triad economies—is giving way to a greater dispersal of global economic power as developing economies contribute an ever-increasing share of the world's output, trade and investment. The raw figures tell their own story: today the developing world accounts for 49 percent of global GDP, up from 39 percent in 1990, and is likely to surpass the developed world within the next two decades. This extraordinary transformation of the global economy, its drivers and characteristics, and its implications for business form the main focus of this study.

Drivers

The emergence of a world characterized by multiple centers of economic power and activity—a concept we term the 'multi-polar world'—is being driven by three powerful, mutually-reinforcing trends:

- The increasing power of information and communications technologies: faster communications have allowed business functions to be disaggregated geographically and have also brought a vast array of service activities, many located in emerging markets, within the scope of international trade for the first time.

- Government policies to increase economic openness: successive rounds of trade liberalization under the auspices of the World Trade Organization (WTO) and the accession of some key emerging economies—especially China in 2001—have dramatically increased levels of economic interdependence.
- The increasing size and geographic reach of the multinational enterprise: a search for new markets, economies of scale, and new sources of capital and labor has vastly increased the geographic presence of multinational companies in emerging markets.

New levels of global interdependence

The rise of the multi-polar world should not come as a surprise: the forces driving it—technology, economic openness, and multinational strategies—are exactly the same as those that have propelled earlier phases of globalization. In this sense the multi-polar world can be seen as a new and deeper phase of globalization. But in its character and effects, it is very different. Globalization is now becoming a two-way process in which developing/emerging economies are changing from passive recipients to active shapers of globalization. The name of the game is increased economic interdependence, as demonstrated by the five key dimensions that make up the multi-polar world:

i) Winning talent

Talent has now become a global commodity, fought over by multiple competitors. At a time when many Western economies are grappling with the effects of older and, in some cases, shrinking workforces, the balance of global labor supply is shifting to developing economies owing to their rapid population growth: about 97 percent of the 438 million people to be added to the global workforce by 2050 will come from developing countries.¹ Not surprisingly, Western multinationals are increasingly seeking to tap into these new sources of talent. However, these supply-side shifts are occurring in tandem with fierce competition for skilled employees: not only are indigenous companies in emerging economies competing head-to-head with overseas multinationals for new recruits and experienced managers, they are also seeking to lure diaspora workforces back home.

ii) The flow of capital

Developed economies have traditionally been the major sources of outward foreign direct investment (FDI), investing first in other developed economies and then, over time, in emerging economies. By contrast, emerging economies have traditionally been net exporters of portfolio capital—stocks, bonds and the like—as developing-economy investors sought to channel domestic savings to the more secure and sophisticated capital markets of developed economies. But as we move toward a multi-polar world, we are beginning to

see the first signs of an inversion of this dynamic. Emerging economies are becoming an increasingly significant source of outward FDI, about 17 percent of the world total, as their companies look for expansion opportunities in overseas markets, typically in other developing countries but often in the developed economies of Europe and the United States as well. At the same time portfolio investment is flowing into emerging markets with greater regularity as global investors seek the returns promised by high growth rates. As with talent, the story is again one of increased global interdependence as the suppliers and demanders of capital become more geographically diverse and intertwined.

iii) The battle for resources

The theme of deepening global interdependence is illustrated crucially in the interplay between supply and demand for natural resources. Emerging economies are growing at a fast pace and, as they grow, so does their appetite for natural resources of all kinds: energy resources, minerals and metals, and water. Since 2000 these economies have been responsible for 85 percent of the increase in world energy demand and they will absorb the lion's share of projected energy demand up to 2030.² Meanwhile, the supply of resources is becoming strained and both developed and emerging economies are competing fiercely in many regions—notably in South America and Africa—for access to the best sources. In this context the challenge for leaders is fast becoming one of how to manage the complex balance between three overriding imperatives: of economic growth, energy security (of supply for resource-poor countries and of demand for resource-rich areas), and sustainability.

iv) The emerging consumers

To date the growth of emerging economies has been built largely on a proficiency in supplying low-cost goods and services to the developed Western economies. Now, however,

these economies are becoming important consumer markets in their own right and a lucrative target for multinational manufacturers, service providers, and retailers. Rapid growth and deeper integration is fueling rising employment and incomes in emerging economies, creating a burgeoning middle class of potential consumers numbering many millions. Emerging economies will account for more than half of global consumption by 2025, adjusted for differences in purchasing power. Already developing-country markets for many products and services rival those of industrialized countries. China, for example, is by far the biggest market for mobile phones with over 395 million subscribers and, in 2007, it is set to overtake Japan to become the world's second-largest car market. Mexico represents the world's second-largest soft drinks market. It is clear that multinational companies are refocusing their sights on emerging economies as the sheer growth potential of these markets becomes evident.

v) The new map of innovation

Innovation has long been regarded as the domain of the 'triad' economies of the United States, Japan and Europe, founded on a base of dynamic markets, skills, and advanced technology. Yet in the emerging multi-polar world this simple characterization no longer holds true: due to a combination of deep investment in education and skills, strategic targeting of emerging industries, and rapid diffusion of new technologies, many emerging markets are moving up the value chain at a far more rapid pace than was previously thought possible. In short, innovation is becoming more geographically diffuse with clusters of innovation springing up in locations as diverse as Beijing, Bengaluru, Greater Seoul, and Krakow. The message is clear: developed nations can no longer take their lead in innovation for granted.

Achieving high performance in an interdependent world

Multinational companies from both the developed and the emerging economies need to understand these trends if they are to achieve high performance in an increasingly complex global environment. High performance will depend on a finely tuned ability to adjust market focus and positioning to constantly shifting locations and sources of competitive advantage. National and regional boundaries will become less important as companies begin to organize by value creation rather than geography. This could mean grouping consumer markets in terms of growth potential rather than location, or segmenting the workforce by skill level rather than location, so that a high-skilled worker in China is part of the same talent management strategy as one in the United States. Companies will need to be simple on the inside, but differentiated on the outside—simplifying their global operations to achieve scale economies while differentiating their products and services for the diverse markets in which they operate. Finally, culture matters: having a diverse leadership team with knowledge spanning disparate markets will be of utmost importance.