THE FOUR KEY ECONOMIC CHALLENGES FOR TODAY’S GLOBAL BUSINESS

Strategic implications for 2008!

By Professor Jean-Pierre Lehmann (January 2008)
It may be a cliché to say that the speed of change of the world economy is absolutely hallucinating, but it is almost an understatement of reality. The news comes in a confusing avalanche of counter-intuitive thunders. UBS, that Matterhorn of the Swiss banking system, needs to be bailed out to the tune of US$11.5 billion by a group of Asian and Middle Eastern investors, while its American cousin Citigroup is rescued with an injection of US$7.5 billion from an Abu Dhabi fund.

The rising tide of emerging market funds and multinationals from the South investing in the rich economies of the North is only one of the many tectonic transformations occurring, heralded in a previous Tomorrow’s Challenges article, “The Times They Are A-Changin’”, exactly a year ago. A key trend I stressed then was the demise of the hub-and-spokes world economy, with the OECD countries as the hub and the emerging markets as the spokes. Not only is there a lot of movement of capital in the other direction (South-North), but also an amazing amount of growth in South-South transactions. Consider (out of an immense array of dizzying statistics) the following: “Trade flows between the Middle East and China last year totalled $69 billion, up from $6 billion in 1995. In 2000, there were only seven direct flights a week from the six Arab states in the Gulf Co-operation Council to China. Today, there are 50.” (Financial Times, 10 December 2007).

While the confusion will continue to reign and uncertainty is the future’s only certainty, it would seem reasonably safe to forecast that the global business environment will be dominated by four key challenges:

**Key challenge – China**

While all four “BRICs”, Brazil, Russia, India and China, and other key emerging economic players will continue to surprise global business, China will be way ahead in terms of its impact on almost every conceivable facet of the planet one can think of: climate, geopolitics, trade, sport (the Olympics!), finance and forex policy, tourism, energy, commodity prices, infrastructure, etc, etc. On infrastructure alone, China has just over 45,000km of highways, with the goal of reaching 85,000km by 2010. That’s a lot of tarmac! While China’s economy is still small compared to the US, its contribution to global GDP growth is significantly higher (31% for China as opposed to 15% for the US in 2006) and can be expected to become even more so. American multinationals such as GE are looking to China for profits to offset the losses they expect to make in the possibly recessionary US. The question is no longer whether economies can “de-couple” from the US, but how the process of “reverse coupling” – US dependence on China and other emerging markets – will occur.
Key challenge - Politicization of global business and protectionism

The German business community is hopping mad because the hospitality extended by Angela Merkel to the Dalai Lama may seriously jeopardise German business interests. Meanwhile, Sarkozy eschews the Dalai Lama, embraces Gaddafy, and in the process picks up many possible Chinese and Libyan contracts. That phenomenon is not new, but the pattern will intensify and multiply. As the institutions of global economic governance are experiencing a systemic crisis, a whole spectrum of unhealthy “isms” will be a prominent part of the 2008 global business fare: economic nationalism, mercantilism, bilateralism, preferentialism, unilaterlalism and protectionism. Earlier incidents such as the aborted attempts by the China National Offshore Oil Corporation (CNOOC) to acquire Unocal and of Dubai Ports’ acquisition of P&O (through which it would have gained control over a few American ports) will multiply.

The Tata Group was rebuffed when it sought to acquire the American luxury leisure group Orient-Express on the grounds of its allegedly un-classy Indian origins, although it would seem that Tata Motors will prevail, in spite of much resistance and reluctance to acquire Jaguar and Land Rover. The French Government had also rejected the Tata Group’s attempt to purchase the iconic Champagne brand Taitinger for the same reasons. Snobbishness, security, identity, pride, national policy, whatever, business will become increasingly politicized and less globalized. It may also, as it already is in many respects in reaction to the “Chinese challenge”, become a sub-theme of the “clash of civilizations” syndrome. And 2008 seems to be a year when American – and increasingly also EU – protectionist sabre-rattling vis-à-vis the Chinese will become more threatening. As the temperature mounts on one side, retaliation can be expected on the other. Backlashes in one direction generate backlashes in the other. In a highly volatile global political and ideological environment, companies can also expect unpredictable events in which they may find themselves to be “innocent victims”, as happened to the Danish dairy company Arla in the Middle East [its major overseas market], following the publication of cartoons of the prophet Mohamed in a provincial Danish newspaper *.

Key challenge - Poverty, inequality and the “bottom-of-the-pyramid”

Just as the politicization of business is hardly new, neither is poverty or inequality. The differences today are [1] that inequality seems to be increasing everywhere, and especially [2] it is much more visible to the masses in this information age. Though there are encouraging statistics in respect to poverty reduction – especially in East Asia – the fact remains that somewhere in the region of 50% of the planet’s population, some three billion people, are still too poor to participate in the global market economy.
One meaningful indicator is that it is estimated that half the world’s population has never made a phone call. As mobile telephony is one of the most poverty “friendly” technologies, that figure should be reducing sharply, but it is nevertheless evocative of our global age. More dramatically, about a third of the world’s population does not have access to drinking water or proper sanitation. The plight of the poor stands in increasingly visible contrast to the plenty of the very rich. It is said that the Mexican tycoon Carlos Slim has been increasing his wealth since 2005 by US$27 million a day, while 20% of Mexico’s population lives on less than US$2 a day. Not only, however, is there a yawning chasm between the rich and the poor, but even among the “haves”, as opposed to the “have-nots”, there are growing and gaping disparities between those having a-hell-of-a lot-and-more-and-more and those having less-and-less. The Gini coefficient (which measures income disparities in countries) is growing by leaps and bounds virtually everywhere. On the basis of current demographic trends, where the rich are having fewer and fewer babies, and the poor are seeing a population explosion, two main consequences arise: (1) social unrest could become endemic through great swathes of the planet, while (2) the great market opportunities for businesses will increasingly be found in what C.K. Prahalad termed the “bottom-of-the-pyramid” (BoP). BoP strategies are increasingly an imperative for firms, both for reasons of political and social commitment, in order to “improve the state of the world” (as in the slogan of the World Economic Forum) and thereby decrease risk, and because that is where future profits are to be reaped. From an enlightened self-interest perspective, business strategies should aim at empowering the “aspiring” classes and at reducing inequalities.

Key challenge – A green agenda

The environment issue is another radical recent transformation. Twenty years ago the greens were marginal. Today, environment is a key policy and an increasing strategy priority. But while the public policy process – in environment as in so many other issues – is advancing at a snail’s pace, increasingly the agenda is being driven by visionary businesses. The term “sustainable” has become integrated in the rhetoric, strategy and consciousness of business. As with poverty and inequality, it is probably the case that the private sector may have the most contribution to make in the face of the environmental challenge through innovative green technologies and business practices. This is not to say that ecology-oriented NGOs should relax and cease worrying about the potentially environmentally destructive effects of business activities, on the contrary, but the point now is that corporations –not only in the industrialized countries, but also in developing countries – are much more susceptible to environment-driven external perceptions and pressures.
None of these challenges are looming distantly on the horizon. They are very much a reality TODAY. Companies not having proper strategies, structures, and especially people, to address these four key tomorrow’s challenges now, in 2008, may not be around tomorrow!

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