

STRATEGIC SHIFTS IN A NEW GLOBAL ECONOMY

THE RECENT GLOBAL ECONOMIC CRISIS NOT ONLY EXPOSED LOOPHOLES IN CORPORATE GOVERNANCE PRACTICES AND LACK OF SCRUTINY BY REGULATORS, BUT ALSO PAVED WAY FOR A NEW ECONOMIC WORLD ORDER WHICH IS NOT JUST OPPORTUNISTIC BUT ALSO RISKY. THE CHALLENGE FOR BUSINESSES IS NOW TO USE STRATEGIC SHIFTS AS A TOOL TO SEAMLESSLY INTEGRATE INTO ECONOMIES WHICH ARE ON THE VERGE OF ALTERING THE GLOBAL GDP COMPOSITION



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The new global economy presents numerous opportunities and poses as many challenges to business firms. Prominent among them are the fallout from the financial crisis, continued rise of emerging economies, demographic changes and geopolitical risks. The financial crisis has not only accelerated the above mentioned trends, but also created a variety of problems for firms. Paramount among them is the lack of liquidity in credit markets which has made it more difficult for firms, especially smaller ones, to fund their operations. These difficulties are more evident in the most “bankarised” economies such as the euro zone apart from some emerging economies.

The crisis has also shaken investor confidence more broadly, thus making it harder for non-financial companies to offer stock or other types of securities. This effect will be especially felt among firms in emerging economies, which were planning to access financial markets in the US and Europe. As a result of the crisis, these companies will perhaps continue to rely on internal funding or pursue financial markets in emerging economies which are growing fast.

The crisis has certainly made it more readily apparent that the emerging economies are becoming ever more important.

In fact, starting this year, the contribution of non-OECD economies to world GDP will be greater than 50%, and by 2035 it will command a 60% share. Current and future growth rates are likely to create a situation in which nearly half of the global consumer market will be located in emerging economies. Expansion of the middle class in Brazil, China, India, Egypt, and other countries represents a major change in global consumption due to the sheer size of these markets. Therefore, catering to them will require not only more production and stores but also investments in logistics, infrastructure, finance and other forms of support activities. The world will certainly change when the GDP composition of the emerging economies resemble that of the US, i.e. with consumption accounting for 70% or more of economic activity.

Demography is also reshaping the opportunities and challenges faced by businesses worldwide. While Europe and East Asia (*China, Japan, South Korea*) stagnate from a population point of view, Latin America, Africa and South Asia are projected to continue growing. These trends pose challenges and long term implications for both the production and the marketing decisions of businesses. On the production side, one would expect wages to be relatively competitive in countries

Ever since the global financial crisis unfolded, corporations are increasingly looking towards establishing a stronghold in non-OECD economies as their contribution to world GDP is greater than 50%

with high demographic growth. Thus, it is likely that Africa and South Asia, to the extent that other aspects are conducive, will attract more labour-intensive investments by corporations in the near future.

On the demand side, not only certain markets will grow faster than others, but the age distribution will also change. In countries with a rapidly ageing population, companies will find new opportunities to sell certain types of goods and services to relatively affluent consumers. Financial institutions are among the most affected by this trend. In countries with young populations, the opportunities will be in other categories. Companies will need to learn how to reallocate human and capital resources around the world in response to these trends. Organisational flexibility will likely become a key source of competitive advantage.

The most important trend shaping global business at the moment is geopolitics. Regarding macro-geopolitical risks, wars are no longer a key source of concern. Rather, terrorism and failed states have become the major source of instability in the world. These are old problems that have become too widespread in recent years. They are intertwined with each other. Geographically, they affect many parts of Africa, Middle East, South Asia and selected countries in Latin America. These parts of the world are characterised by rapid population growth and by natural resources, especially energy.

Thus, the most important source of instability in the world is closely linked to demography and energy, making for an explosive mix. While the risks of operating in these areas are high, so are the returns for those firms which know how to cope with risks. Therefore, firms with the ability to operate in geopolitically risky places will experience a windfall.

One should also pay attention to mi-



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cro-political risks. While nationalisations or expropriations of specific companies or operations are rare nowadays, governments in many parts of the world continue to change certain rules that affect the rate of return on investments. These include change in taxing policies, profit repatriation rules, amortisation schedules and so on. Such changes tend to be more frequent in emerging economies than in developed ones. Thus, businesses will need to be more careful when planning an investment, making sure that they structure it in such a way that it is not affected by such changes.

In sum, the new global economy

presents many opportunities and challenges. Fortune favours the prepared, and we know from experience that some firms do better than others, especially when conditions are adverse or risky. Looking towards the future, the right attitude is not to avoid risks, because the best opportunities might be located in risky places. The right approach is to develop the capability as a business to operate in different parts of the world, even risky ones, carefully adapting human and capital resources to the requirements of the situation.

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