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THE RISE AND RISE OF THE NEW ECONOMIES: Or the rise and fall

Quick Points: An overview in 120 seconds
During the past three months two major studies, focusing upon the future of the global economy, have been released. Both show significant global growth and the emergence of a swathe of new economies.

This information can be interpreted from two perspectives. The conventional perspective sees opportunities and wealth for all. The promising pictures can be regarded as a vindication of free market capitalism, democracy and most importantly for organisations, corporate strategies that recognise the opportunities presented by a united world.

A less conventional viewpoint reveals challenges and the end of an era that was comfortable for many of us. Most of us grew up and formed our opinions about the way that business and the world worked during the period 1980 to 2010. This briefing holds that these were largely atypical decades and that it may be dangerous to use assumptions developed in this period to make decisions for the next decade. This new era ahead of us demands a totally fresh approach.

This briefing explores this less conventional perspective.

Introduction

Perhaps the secret of competitive advantage is seeing the marketplace from a unique perspective, a perspective that is different from the one adopted by the crowd.

I would like to apply this approach – taking a different viewpoint - in this briefing.

In recent months two major banking groups have published long-range views of the global economy – Standard Chartered in November 2010 and, more recently, HSBC in January. For the purposes of this briefing, I will use the Standard Chartered report although both paint pictures of significant growth, particularly for the emerging economies.

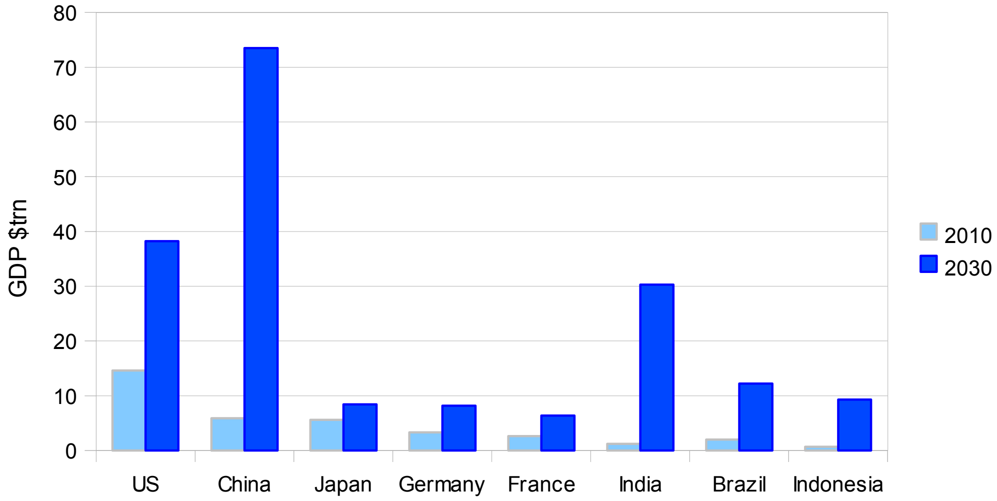
One Perspective

The Standard Chartered report, *The Super-Cycle Report[1]*, makes these key points when looking at the world out to 2030:

- We are entering a prolonged period of growth, referred to in the report as a "super-cycle", driven by the industrialisation and urbanisation of emerging economies and increasing global trade.
- In the period 2000 – 2030, growth will average 3.5% per annum.
- Growing consumer demand in the emerging economies. Chinese consumer demand is projected to outstrip the spending of US consumers in 2018. China will be "a huge middle income economy by 2030". In fact, Asia becomes the world's middle class capital.
- The global economy will grow from $62trn (2009) to $308trn in 2030. This is a real annual growth rate of 3.9% from 2010.
- Whilst the East grows substantially, the West grows too. And there's good news for Africa.
- This is a world characterised by openness and change driven by democracy.

The world order, in terms of the relative size of economies changes considerably. In 2010 the top five economies are US, China (under half the size of the US in GDP terms), Japan, Germany and France. By 2030, the picture is different. China is (unsurprisingly) in number one position with an economy nearly twice the size of the US, India is in third place pushing the US hard and Brazil and Indonesia are in fourth and fifth positions respectively as I illustrate below.

The Top 5: 2010 and 2030 contrasted



Source: [1]

The report clearly indicates that there are challenges ahead, but also highlights that there are massive prizes for all. This is really a vindication of the corporate strategies that we have seen appearing during the last decade or so that have focused upon taking advantage of both the latent demand in new emerging markets and the availability of lower cost processes in Asia.

Another Perspective

To take a different viewpoint, I will refer to the international relations literature as I wish to explore the geopolitical implications of the "super-cycle". Those of you who have read my earlier briefings and blogs will know that over the coming decade international relations will be the primary driver of change – not technology as we have been used to during at least the last thirty years.

My interest is in what the above projections can tell us about *power*. When I use the term "power" I mean primarily power held by nation states. As Susan Strange argues[2], there are two types of power that states can wield. *Structural* power is the power "to decide how things shall be done, the power to shape frameworks within which states relate to each other, relate to people, or relate to corporate enterprises". But there is also *relational* power, the stronger realist view of the capacity of one state to *force* another state to do what the latter does not wish to do. There are many measures of state power but most include the relative size of nations' economies and their military investment.

So we can use the information in the *Super-Cycle* report, with a few additions, to model or map power in the global arena. I am going to prepare *power maps* using three pieces of information:

(a) GDP.

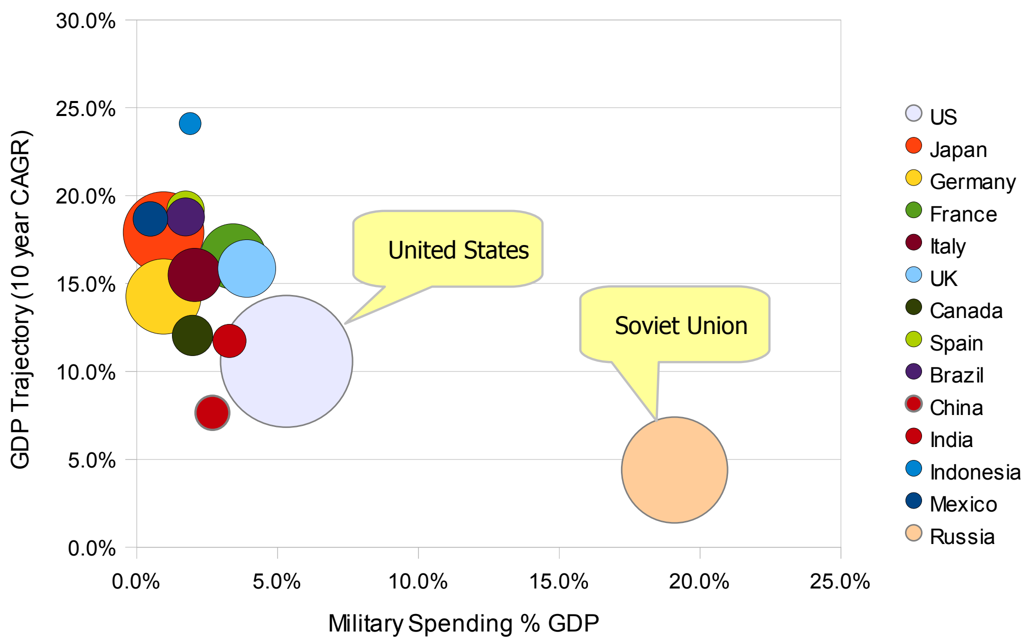
(b) The trajectory or velocity of a state's growth. In other words, an indicator of where the economy has been and where it may be going.

(c) Military spending.

In the maps below, the relative size of the economy is indicated by the bubble areas, the "economic trajectory" is plotted along the Y axis and military spending along the horizontal X axis.

We will start by going back in time to 1980, nine years before the fall of the Berlin Wall:

Global Power: 1980



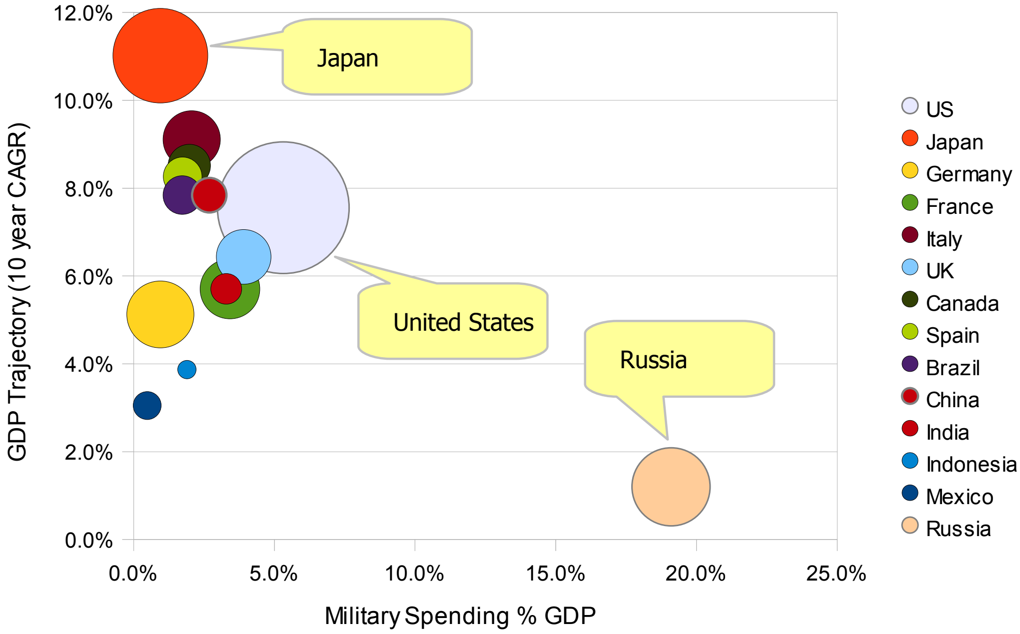
Source: [1], [3]

It is easy to see a clear balance of power here.

Although the Soviet Union's economy is smaller, its massive military spending creates an almost perfect power balance between two groups of *mature* states – the Soviet Union and the US coupled with its close allies. Remember that power was evenly balanced. Even if you disagree with their ideologies, these were experienced mature power blocs, neither would have actually pressed the button market mutual assured destruction.

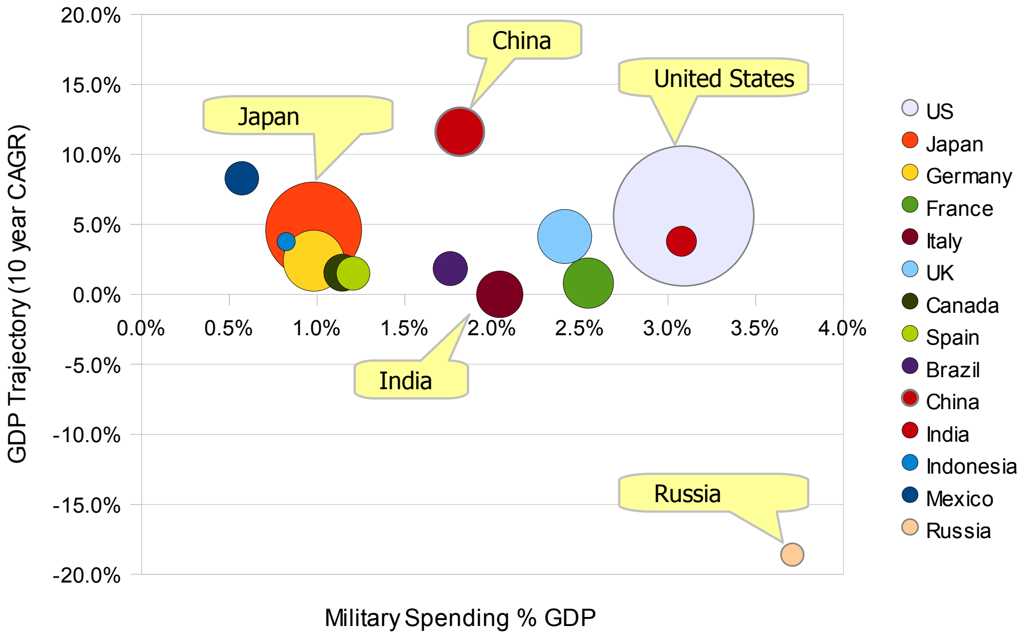
But we must move on ten years to 1990. The dust from the fallen Berlin wall is yet to settle, but we can see a clear shift in power:

Global Power: 1990



We see the start of the decline of Russia's (formerly the Soviet Union) power and the rapid emergence of a unipolar world dominated by the US (the only other significant bubble – Japan – adopted a demilitarised stance). Such a picture of a unipolar world continues to form when we move ahead to 2000:

Global Power: 2000



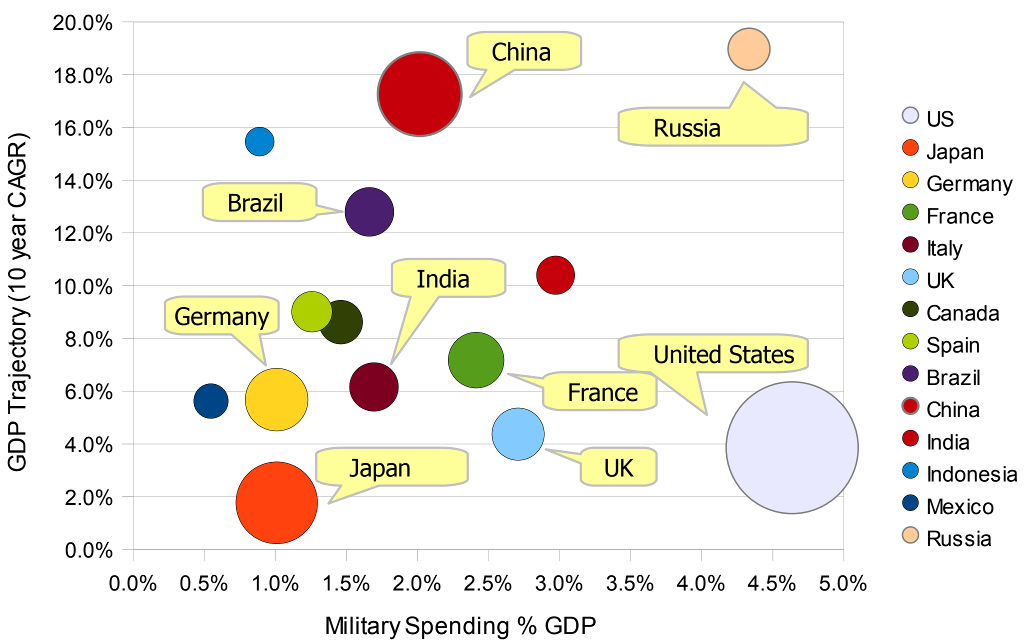
Russia' decline is dramatic. Taking a combination of economic and military resources, the US is unchallenged. The next most sizeable economy is Japan, but here there is still an exceptionally low military spend.

So, looking back over the period 1990 to 2000, we see the emergence of a unipolar world dominated by the US – and the death of the Soviet Union. Interestingly, it was during this period that thoughts of democratically empowered globalisation were born[4].

But the question must be was this an atypical period or is it one that is representative of a future world?

To start answering this central question, we must look at where we are now.

Global Power: 2010



Here we are confronted with a very clear picture that indicates:

(a) The potential decline of the US as the "governing great power".

(b) The appearance of new rising powers and the potential re-birth of an old power (Russia).

(c) The emergence of a relatively disparate multi-polar world.

At this point it might be worth reflecting upon what history has to say about the relative stability of unipolar, bipolar and multi-polar worlds.

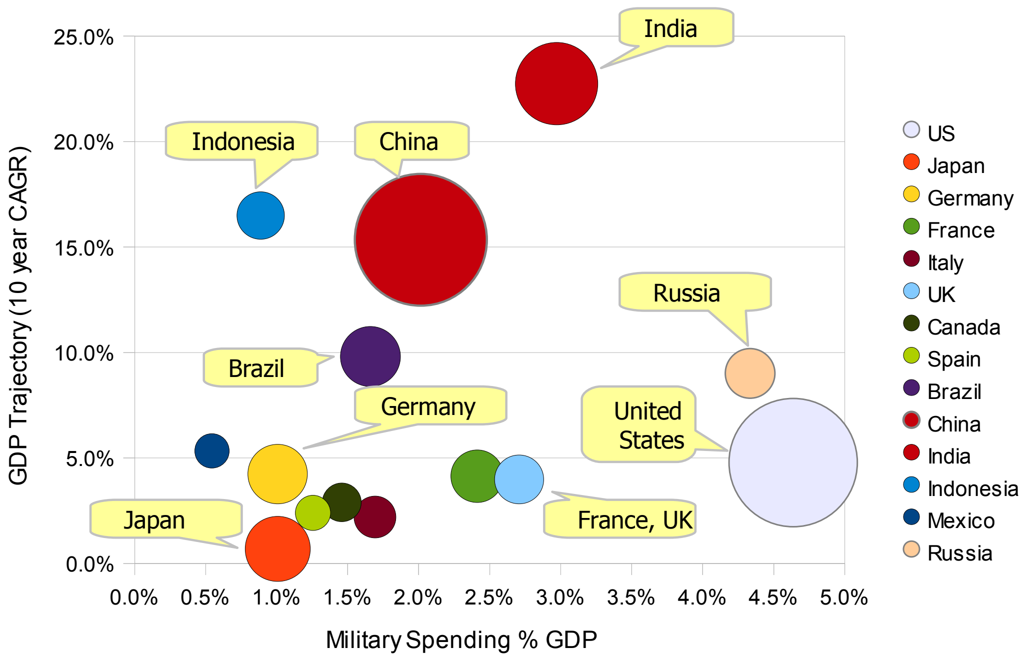
John Mearsheimer's[5] analysis points to a period of instability. Mearsheimer's work, looking at European conflict during the period 1792 – 1990, reveals the following:

Power Structure:	**% of years with conflict:**
Bipolarity	**2.2%**
Balanced multi-polarity	**18.3%**
Unbalanced multi-polarity	**79.3%**

So we can start to see that we may be at the end of a relatively peaceful 30 year period characterised firstly by a balanced bi-polar world and secondly a US dominated uni-polar world. Against this backdrop we need to see what the decade ahead of us holds. But as we proceed through these future years, it may be relevant to remember the words of Robert Gilpin:

> "Finally, and most important of all, hegemonic wars are preceded by an important psychological change in the temporal outlook of peoples. The outbreaks of hegemonic struggles have most frequently been triggered by the fear of ultimate decline and the perceived erosion of power. The desire to preserve what one has while the advantage is still on one's side has caused insecure and declining powers to precipitate great wars. The purpose of such war frequently has been to minimize potential losses rather than to maximise any particular set of gains." [6] p235.

Global Power: 2020



We see here a development of the same picture, an unbalanced multi-polar world, consisting on the one hand of dying powers, clustering together at the bottom right-hand corner of the diagram, and on the other hand, the rise of untested new powers, three being located in Asia.

This of course raises a number of questions including:

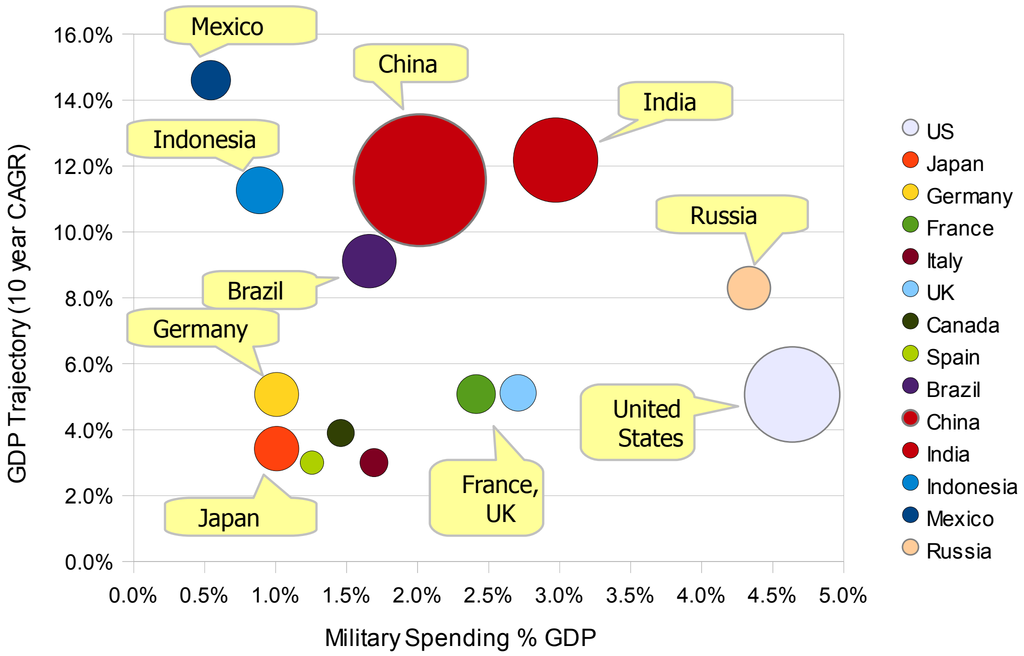
"Will Asia become a zone of stability or instability – how well will these powerful new neighbours work together or will old rivalries emerge?"

"How will Japan react in the face of the rise of three new powers?"

"Will the US passively accept its decline?"

To complete the picture we need to move to the final decade of our analysis, and examine the status of power in 2030.

Global Power: 2030



Predictably, we see the dominance of China but we are still left with a multi-polar world and we can observe that relationships between the new powers (China, India, Indonesia, Brazil and Mexico) will be of critical importance, especially as the US declines and its global influence enters its twilight years. It is highly unlikely that the US will be acting as the world's policeman in this decade.

Conclusion

Growth in the world's economy can be seen from two perspectives. The conventional, taking primarily an economically rational viewpoint, or a less-well publicised perspective that adopts a behavioural approach to international relationships.

We can make the following preliminary observations:

1. Past decades may not be a good guide to future behaviour on the international stage. The past thirty years have been characterised by the existence of either a balanced bi-polar environment (US and Soviet Union) or the emergence of a unipolar world. These conditions spawned a period of (relative) peace. Interestingly, it was during this period that the concepts of peaceful globalisation and the spread of western capitalism were born.

2. These conditions will not hold for the the next two decades. During this period we will progress to an imbalanced and untested multi-polar world. The influence of the US will decline. The world faces a mixed decade as new powers either jostle or join together to fill the vacuum left by the US.

3. The issue of conflict (the exercise of *relational* power) therefore raises its head. Perhaps the idealists were partially right. We have reached the stage where developed and emerged economies don't fight each other using the traditional tools of warfare. Some will be relieved to note that I am not predicting thermo-nuclear war. But if we think of warfare in more modern terms – cyber war and particularly economic warfare – then we can see that the first ranging shots are being fired. Events on the horizon, from food crises to rare earths will test the cohesiveness of the new world order.

4. But we also have to consider the issue of *structural* power. In short, the power to change the "system". The era of totally free market capitalism is coming to an end and more quickly than some may think. New voices will be heard. If the last three decades belonged to deregulated capitalism, the next decades may belong to state capitalism.

5. Businesses urgently need to consider the shape of an alternative world. Globalisation (at least a western definition of globalisation) is now facing its biggest test.

I will explore the face of the new new multi-polar world and what it means for business in future briefings and blog entries.

Note that this is a "work in progress" paper. Amendments will be made and I have had to make, in some cases estimates and assumptions to produce this analysis.

References

[1] G. Lyons, *The Super-Cycle Report*, London: Standard Chartered Bank, 2010.
[2] S. Strange, *States and Markets*, London: Pinter, 1988.
[3] A. Maddison, "Measuring the Performance of a Communist Command Economy: An Assessment of the CIA Estimates for the USSR," *Review of Revenue and Wealth*, Sep. 1998, pp. 1-27.
[4] F. Fukuyama, *The End of History and the Last Man*, New York: Avon, 1992.
[5] J. Mearsheimer, *The Tragedy of great Power Politics*, New York: Norton, 2003.
[6] R. Gilpin, *War and Change in World Politics*, Cambridge: Cambridge University Press, 1981.

Finally

I hope that you have enjoyed this briefing. My work encompasses most aspects of strategy and change management from helping business teams to analyse their competitors to working with directors to explore the future paths that globalisation could take.

Some other examples of my work are:

- Forward looking business scenarios – what are your future challenges?
- Facilitating board level strategic reviews, with a particular emphasis upon the definition of tomorrow's competitive environment.
- Design and implementation of Balanced Scorecard performance measurement systems.
- Research and market analysis.
- Training: Strategic Thinking, Competitor Analysis, Scenario Planning, Performance Measurement and Strategic Change Workshops.
- Product portfolio assessment. Helping the business to define the optimal product portfolio – balancing future competitive conditions with the probability of achieving future planned performance.
- Communication programmes.
- Organisational audits – assessing the innovative capability of your organisation.

With best regards,

Robert Davies