INTERNATIONAL TRADE FORUM MAGAZINE

THE QUARTERLY MAGAZINE OF THE INTERNATIONAL TRADE CENTRE



# New world order: Shifting markets in trade, investment and opportunity

International Trade Forum - Issue 2/2010

In the aftermath of the global financial crisis, a new world order is emerging. It is a world of rapidly shifting markets characterized by changing patterns of trade, investment and opportunity. The developing world is increasingly becoming an important driver of the world's economy; South-South and intra-regional trade are growing rapidly; supply chains are changing; and opportunity exists in an environment where business flows in every direction.

In April 2010, Robert Zoellick, President of the World Bank Group, addressed the Woodrow Wilson Center for International Scholars. 'If 1989 saw the end of the "Second World" with communism's demise,' he said, 'then 2009 saw the end of what was known as the "Third World".

'We are now in a new, fast-evolving multi-polar world economy - in which some developing countries are emerging as economic powers; others are moving towards becoming additional poles of growth; and some are struggling to attain their potential within this new system - where North and South, East and West are now points on a compass, not economic destinies,' Mr Zoellick said.

The world has become one of greater connectedness. Nations and businesses previously perceived to be competitors are now becoming collaborators or connectors, and developing countries see opportunity in their immediate neighbours, not just traditional markets far away.


Jim Hemerling, Senior Partner and Managing Director, Boston Consulting Group

It is a view shared by experts around the globe, including Jim Hemerling, co-author of *Globality: Competing with Everyone, from Everywhere, for Everything*. Mr Hemerling, a San Francisco-based Senior Partner and Managing Director at the Boston Consulting Group (BCG), and his colleagues have been heralding the currents shifts in global trade for a number of years.

**From globalization to 'globality'**

'"Globality" is really our term for a multi-polar world or a multilateral globe. It is not a new and different term for globalization but for what comes after it,' says Mr Hemerling.

The era of globalization was characterized by the expansion of large corporations in North America, Europe and Japan that sought to sell their products into developing markets, and also to lower costs through outsourcing certain aspects of their operations. Companies in rapidly developing economies played mostly supporting roles as vendors and suppliers. The era of globality is characterized by the rise of companies that are based in rapidly developing economies and do business in new, and often very different, ways.

Globality is not about the expansion of business activity from West to East, but is a new and different global reality in which companies will be 'competing with everyone from everywhere for everything', as the subtitle of the book suggests. It is a different kind of environment in which business flows in every direction.

'And by everything, we mean just that - all the world's resources and markets,' says Mr Hemerling. 'Everybody will be trying to grab the same thing that everybody else wants: raw materials, capital, knowledge, capabilities and, most importantly, people: leaders, managers, workers, partners, collaborators, suppliers and, of course, customers.'


Pankaj Ghemawat, Professor of Global Strategy, IESE Business School, University of Navarra, Spain

**National borders still matter**

Pankaj Ghemawat, Professor of Global Strategy at the University of Navarra (Spain) IESE Business School and author of *Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter*, warns that there is a need for effective cross-border strategies.

He argues that while world trade is opening and becoming more accessible, addressing the crucial balance between global and local will often define success in an increasingly globalized world economy. 'National borders still matter a lot for business strategists. While identifying similarities from one place to the next is essential, effective cross-border strategies will take careful stock of differences as well,' he says.

**New sources of demand**

According to Mr Zoellick, the shifts are already taking place. Asia's share of the global economy in purchasing power parity terms has risen steadily from 7% in 1980 to 21% in 2008. Asia's stock markets now account for 32% of global market capitalization, ahead of the United States at 30% and Europe at 25%. Last year, China overtook Germany to become the world's biggest exporter.

'Import numbers tell a revealing story: the developing world is becoming a driver of the global economy. Much of the recovery in world trade has been due to strong demand for imports among developing countries,' said Mr Zoellick.

Developing country imports are already 2% higher than their pre-crisis peak in April 2008. In contrast, the imports of high-income countries are still 19% below that earlier high. Even though developing world imports are about half of the imports of high-income countries, they are growing at a much faster rate. As a result, they accounted for more than half of the increase in world import demand since 2000.[1]

**Rise of middle classes in developing countries**


Robert Zoellick, President, World Bank

'The world economy is rebalancing,' said Mr Zoellick. 'We are witnessing a move towards multiple poles of growth as middle classes grow in developing countries, billions of people join the world economy and new patterns of integration combine regional intensification with global openness.'

The developing world's share of global gross domestic product (GDP) in purchasing power parity terms increased from 33.7% in 1980 to 43.4% in 2010. Developing countries are likely to show robust growth rates over the next five years and beyond. Sub-Saharan Africa could grow by an average of more than 6% to 2015 while South Asia, where half the world's poor live, could grow by as much as 7% a year over the same period.

South-East Asia has become a middle-income region of almost 600 million people with growing ties to India and China, deepening ties with Japan, Republic of Korea and Australia, and continuing links through global sourcing to North America and Europe.

In the Latin American and Caribbean region, 60 million people were lifted from poverty between 2002 and 2008 and a growing middle class boosted import volumes at an annual rate of 15%.[2]

**Increases in South-South trade**

According to the United Nations Conference on Trade and Development (UNCTAD), South-South merchandise trade accounted for more than 10% of world trade imports in 1995 and, by 2008, this share had almost doubled to nearly 20% valued at US$ 3.1 trillion.

UNCTAD figures indicate that more than 70% of South-South trade is attributed to intra-Asian trade, about 6% to intra-trade between Latin American and Caribbean countries, and 2% to intra-African trade. The top traders in South-South trade, especially intra-regional trade, are Brazil, China, India, Republic of Korea, Singapore and Saudi Arabia, with China accounting for the largest share (more than 40%). This demonstrates that there is a huge potential to expand South-South trade, especially in Africa, Latin America and the Caribbean, as well as inter- and intra-regional trade, to a group of developing countries much wider than the economies of the BRIC (Brazil, Russian Federation, India, China) countries. (See page 22.)

**Shifts in foreign investment and finance**

According to the *2010 Foreign Direct Investment Confidence Index* published by global consultancy firm A.T. Kearney, several emerging markets are attractive to foreign investors.

The index tracks the impact of probable political, economic and regulatory changes on the investment intentions and preferences of top companies around the world. China, India and Brazil are in the top five, while emerging markets with large consumer bases, such as Indonesia and Viet Nam, also rank highly.

'These developments illustrate a trend in this year's index: a flight to safety among international investors that benefits large emerging economies and established, developed ones. In the midst of the greatest period of economic dislocation since the Great Depression, these economies are judged to have the scale, depth, and in the case of emerging markets, growth potential to weather the storm,' said Paul Laudicina, A.T. Kearney global Managing Officer and Chairman recently.[3]

The global financial crisis has also changed the world's perspective on financial security. With the tumbling of traditional finance structures in developed countries, the financial systems in developing countries have been 'recalibrated' as sound options, inducing greater confidence to invest.


Peter Munro, Partner and Head of the Financial Institutions Group, A.T. Kearney

'The global financial crisis accentuated the shift that was already present before the crisis arose,' says Peter Munro, Partner and Head of the Financial Institutions Group, A.T. Kearney Australia. 'So there has been a general strengthening of developing economies now that the investment capacity of Northern America and Western Europe has been hit quite severely. I think that it just accelerated the move towards emerging economies.

'The requirements for infrastructure and investment will be a significant economic driver in emerging markets,' Mr Munro adds. Investment from China and India into Africa is taking a new shape with more long-term partnering options explored rather than solely resources-based deals. Local capacity building and sustainability are in most cases now a given rather than an add-on. (See page 16.)

The challenge for governments in developing and emerging economies is to ensure that the business and regulatory environment is in place to support long-term domestic growth and not just short-term investment.

**The impact of technology on supply chains**

Global supply chains are also reconfiguring as companies rethink their current systems and supply chains against a backdrop of technology changes and mounting social and environmental concerns. 'Supply chains are not just the straightforward economic equation they once were,' says Mr Munro. 'Economic and social factors are now being taken into consideration.'

Technology has enabled what Mr Hemerling and his peers refer to as 'unprecedented global access'. 'When the Japanese had to compete and globalize, it was very difficult for them to get any information about foreign markets or to get access to those markets. But today you have phenomenally open access, partly enabled through telecommunications and the Internet. There are also more global markets - for ideas, the exchange of intellectual property, global access to capital markets and to talent - and then all of this is enabled by technology as well as much more trade friendly policy,' he says.

Those changes are creating new opportunities for companies - large and small - across the globe. Global telecommunications giants have foreseen opportunities in the developing world for many years and have invested heavily in establishing a sustainable presence in perceived emerging markets. Importantly, this presents an opportunity for local suppliers as well as the rapid expansion of business previously constrained by geography. The most obvious example, according to Mr Hemerling, is the rise of mobile telephones in China, India, across Asia and now in Africa.

'This is leapfrogging where there is no fixed line infrastructure. It is creating opportunities for mobile commerce and the dissemination of information about markets. These companies are able to cut out the middlemen when they go to sell their products and give them access to markets,' he says.

The Internet and use of social media have also made it a lot easier for small companies to tackle the challenge of visibility and establish a reputation. 'It has become a lot easier for smaller companies to hit the radar of large corporations, and many of the clients we work with are increasingly looking overseas towards smaller suppliers where they may not have done so in the past. That trend creates a whole series of opportunities for SMEs [small and medium-sized enterprises] particularly in the technology and outsourcing sectors,' says Mr Munro.

'SMEs seem to be able to compete quite effectively in the technology sector because they can afford to be more focused and can get into market trends a bit earlier than larger companies. They can concentrate on narrower segments and I think that is an advantage,' he says.

The unique origin that these companies operate in means there is a large, low-cost labour pool and often access to other low-cost resources. 'That is at the core of the advantage,' says Mr Hemerling. 'The other reality is that the companies that are in the developing markets have the home-court advantage. They are in the markets that are growing quickly. The analogy being that if you can put your boat in the river and row with the current, you will go a lot further, a lot faster.'

**The new wave of 'global challengers'**

'Today's shifts open new opportunities,' said Mr Zoellick. Jim Hemerling and his peers agree. 'There are certainly challenges, but in many ways the challenges create the opportunities. There has been a lot of emphasis placed on the rise of the developing countries as economies, but our book chose to focus much more on those that have achieved success through taking advantage of the inherent features of their countries of origin and also some of the characteristics of the new global economy. We call them the "global challengers",' he says.

According to Mr Hemerling and his colleagues, the rules of global business have changed. For most companies, success in the era of globalization will require a global transformation. The global challengers are a set of successful companies identified by BCG that have their origins in rapidly developing economies. They have risen due to three unique factors:

1. The unique origins of their home economies;
2. Unprecedented access to the world's markets and resources; and
3. An insatiable hunger for achievement, success and recognition.

The challengers are making their presence known worldwide - in each other's markets, in markets that are less developed than their own and increasingly in the developed markets. According to BCG, there are 3,000 challenger companies (including Tata Group India, Cemex Mexico and Goodbaby China) that have demonstrated significant success and prominence in recent years. Mr Hemerling also points out that many of the larger challenger companies started out as small, entrepreneurial businesses.

Although this is not the first time that a set of competitors from emerging economies have risen up to challenge the developed markets, Mr Hemerling and his colleagues believe that this wave is much bigger, far more significant and will have a greater effect on the world than those that came before.

The emphasis needs to be on long-term empowerment of communities, individual businesses and clusters of businesses in developing countries, with a focus on creating new opportunities for local industries and the consolidation of local and regional expertise.

[1]*R.Zoellick, The End of the Third World: Modernizing Mulitlateralism for a Multipolar World (presentation to the Woodrow Wilson Center for International Scholars, 14 April 2010).*
[2]*Ibid.*
[3]*P. Laudicina, 'Don't Give up on Globalization', Bloomberg Businessweek, 26 April 2010.*

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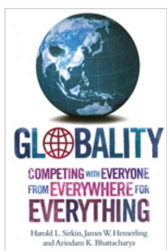


**THE 'SEVEN STRUGGLES'**

*What Companies must do in 'Globality'*

To survive, compete and succeed in the age of globality, every company - whether large or small, in developed or developing markets - will have to compete according to a set of challenges and difficulties referred to as the 'seven struggles':

1. Minding the cost gap - keeping an eye on the cost differential and constantly innovating;
2. Growing people - aligning the right talent with work to be done;
3. Reaching deep into markets - penetrating and reaching deep into mass markets;
4. Pinpointing - through scrutinizing the value chain;
5. Thinking big, acting fast, going outside - through mergers, acquisitions and collaborations;
6. Innovating with ingenuity - finding the right combination of both; and
7. Embracing 'manyness' - the use of more than one strategy.

*Source: Sirkin, Harold L, James W. Hemerling and Arindam K. Bhattacharya, Globality: Competing with Everyone from Everywhere for Everything, Boston, BCG, 2008.*

*Article written by Kris McIntyre & David Faulks*