

Singapore May 15, 2006

CBS lecture May 17, 2006

Topic: Global Transition of Power

By: J. Ørstrøm Møller

- ♦ Visiting Senior Research Fellow at Institute of Southeast Asian Studies, Singapore
- ♦ Adjunct Professor at Copenhagen Business School

Web: www.oerstroemmoeller.com

1. The frame – globalisation, technology, institutionalization, values (1)

Globalisation

- ↑ Economic growth, trade, investment, higher wealth.
- ↓ Rising inequality, losing identity, questioning globalisation.
- ↕ Competition, no hiding place,

Technology

- ↑ ICT transforms the world into a nutshell. No limits.
 - ↓ Digital divide, loss of privacy, intellectual property rights,
Leisure↔workhours...
-

1. The frame – globalisation, technology, institutionalization, values (2)

Institutionalisation

- ↑ Global governance? EU showed the way. Why international institutionalisation?
- ↓ People lose contact with the political system, ask 'what is going on?'

Values

- ↑ Tailwind for Western economic model and political system.
 - ↓ Fundamentalism, self-righteousness attitudes, egoism, Tolerance???
-

2. Five global trends controlling structure of enterprises (1)

- The economic gravity moves from goods to the immaterial economy – service, entertainment, audio-visual world, infocom, dream society, education.
 - Consumption patterns changes from price and cost to values, set of values, ethics, preferences – do we share the same basic attitude.
 - Consumers cease to be just that. An asset for the enterprise taking an interest, engaging themselves, congruous set of values. To be listed on the asset side of the balance sheet.
-

2. Five global trends controlling structure of enterprises (2)

- Staff goes the other way. A transfer market for the best and the brightest. A wage squeeze for the water boy. In short: Enterprise-staff becomes Economics/Costs.

 - Political system:
 - National point of view – welfare society – consensus – security for the individual **OUT**.
 - International perspective – values – market – securing opportunities for the individual **IN**.
Bush/Blair ♥ Reagan/Thatcher or ↔
-

3. Four main battlefields. Outsourcing – Offshoring – Consumption – Multinational Companies (1)

i) Outsourcing. I prefer Supply chain

No longer primarily lower end of the scale production. Moving upwards from simple production to IT to BPO to KPO. Heard about <http://www.pfsweb.com>? You should. Broker in outsourcing (BPO). Annual revenue approx 320 mio USdollars, small net loss. Tailor-made solutions.

Outsourcing moves from lower paid jobs to higher paid jobs. People like us. Almost any job can be outsourced. What will it mean for support to globalisation?

3. Four main battlefields. Outsourcing – Off shoring – Consumption – Multinational Companies (2)

ii) Off shoring

Heard about Innocentive <http://www.innocentive.com>?
You should. Broker in R&D.

Big enterprises (Boeing, Dupont, Procter & Gamble) start to put their research & development jobs on the net. Auction. Who is offering the best and most cost effective solution. Out of the window own R&D department. More than 100 labs in Bangalore live by off shoring. Prairie fire. 80.000 'problem grinders' from 175 countries.

3. Four main battlefields. Outsourcing – Offshoring – Consumption – Multinational Companies (3)

iii) Global Consumption

Few people realises what global citi**ES** signifies. The trendsetters live in global cities finding themselves at ease inside this cultural framework. Shanghai, Beijing, Guangzhou-Hong Kong-Macau, Mumbai, Kolkata, may be Tokyo. Subhubs Bangkok, Saigon, Singapore-Johor, Sydney.

The Hubconcept. Branding, consumer preferences.

Now 17,4% of urban households in China income > 5.000 USdollars. In 2014 \cong 90% with an annual increase of 24%.

3. Four main battlefields. Outsourcing – Offshoring – Consumption – Multinational Companies (4/1)

iv) Multinational Companies.

- Start by looking at Japan. Multinational companies? No way. Japanese companies operating worldwide.
 - China's way. Buying. Lenovo-IBM. CNOOC-Unical. Haier-Maytag. But what do they buy? Knowledge, distribution network, consumer loyalty.
 - India's way. Like Japan but smarter and more clever.
 - Now: Chinese and Indian companies entering each other markets. Infosys, Wipro, Tata become household names in software in China. Haier, Konka, Lenovo, TCL become household names in India.
-

3. Four main battlefields. Outsourcing – Offshoring – Consumption – Multinational Companies (4/2)

- ❑ China sees Indian consumer markets as springboard for expansion to other markets. India values software markets in China as a growth sector. China software – yes domestic market and may be Korea, Japan. Indian software global potential power.
 - ❑ The litmus test: Products from `overseas` partners sold in home country. China, India, Japan.
 - ❑ Strategic perspective. Why `jolly good old fellow` when buying US government bonds but `who the hell do you think you are?` when trying to buy Unocal with only approx 0,3% of US oil consumption..
 - ❑ The implications for Good Corporate Governance of emerging Chinese and Indian multinational enterprises.
-

4. Three Cliffhangers. International legal system, protectionism, demography (1)

1. Legal system.

- ❑ The international legal system.
 - ❑ National sovereignty and the nation-states versus globalisation and internationalism.
 - ❑ Do we move towards or away from an international legal system?
-

4. Three Cliffhangers. International legal system, protectionism, demography (2)

2. Protectionism.

- Where is the international trading system heading? More protectionism or further liberalisation?
 - A growing tendency towards more nationalism.
 - Sometime under the label of patriotism
-

4. Three Cliffhangers. International legal system, protectionism, demography (3)

3. Demography.

- Europe is growing older, USA status quo, Japan falling population, China face demographic problem in approx 20 years, India still growing fast, Southeast Asia in the middle, globally the poor countries fast increasing population.
 - What happens when a smaller share of the population supports a larger share?
 - Social problem, change in demand, new technology (pharmaceuticals, robotics, immigration or.....)
-

5. The Global transition of power (1)

Key sentence:

- Under-consumption in Asia, over-consumption in US
- Over-production in Asia, under-production in USA.

Low costs in Asia keep global inflation down (globalisation, technology, bringing in Chinese labour force – not a new economic miracle). FED is splashing out liquidity. The global financial markets are transferring funds from relatively poor countries (China) to relatively rich countries (USA) despite being designed to do the opposite. The whole dump show is financed by Japan and China /Greater China accumulating USdollars as a substitute for consumption but how long can you live eating greenbacks? Come and buy a chunk of the wild west!

5. The Global transition of power (2)

Shift in economic power. Adjustment must and will take place. Transfer of purchasing power/economic strength from US to Asia. It can be done in one of the following ways:

- Economic policies primarily in US. Fiscal policy. Monetary policy.
- Currency rate changes.
- Protectionism
- Let the market do it, not knowing what will happen.

Where are we right now? Tighten your safety belts.

5. The Global transition of power (3)

Shift in technological power

Pocket Philosophy. Interaction Technology – Culture shapes new trends in civilisation.

What's next: Total communication, communicate with whoever about whatever and wherever. Nomads not nailed down but liberated by ICT. Where????

China 402 mio subscribers on mobile phones end 2005. India 60 million subscribers on mobile phones. 2 million more every month. Handphone starts to become credit card, key to our doors. About 111 mio Chinese on internet. Broadband user 2006: China 64 mio. Prognosis for 2007 said: China 57 mio – US 54 mio. SMS China 6 billion in ONE DAY! New language emerges. Prognoses 2010. China globally number one PCs 178 mio. India 80 mio. Cernet2, IPv6. 3G technology.

EU-Commission forecast. About 2010 China surpasses EU → R&D as per cent of GNP.

6. Globalisation – who holds the key? (1)

Fundamental question whether:

- Globalisation continues as THE model – uncontested
 - Globalisation will be adjusted
 - The trend will turn against globalisation.
 - In which direction does the wind blows – geopolitically, economically, institutionalisation, values?
-

6. Globalisation – who holds the key? (2)

Geopolitically

Change the geo-political system. Transfer of power from US, EU and US allies (Japan, Australia) to the rising powers (China, India, Brasil). Sensitive. Difficult. Germany 1914.

US fight rogue states, international terrorism etc. Alone or a coalition/number of allies including the rising powers. The dilemma: Get them on board but pay the price (increased political influence). Go alone and drain US resources. The result is the same for US: Reduced power. But certainly not for the world!!

US hold the **key**. It is still within reach to shape a lasting global system based upon Western values – more or less – The price is diminished US POWER NOW. Sit in the oval office and hand over some of the megapower's power! Unilateral multilateralism?

The newcomers

6. Globalisation – who holds the key? (3)

Economics

Global growth can be maintained if policy makers control a gradual transition in economic power from the US to Asia. If not an American economic slowdown may drag the rest of the world along.

Key factors:

- A) Changed US economic policy. Prospects. Not good.
- B) Domestic demand in Asia. And how does it look? Reasonably good. Net contribution to GDP growth in China approx 85% from domestic demand 2002 – 2005.

Scoreboard.

6. Globalisation – who holds the key? (4)

Institutionalisation

The **key**:

Development in Asia. If successful stability. If not, a Chinese-Japanese rivalry.

Most likely outcome: China and India will take the lead. Japan sidelined. The role of US and repercussions for globalization.

The outcome of institutionalisation in Asia will be decisive. Not only for Asian integration but also for the future of globalisation. US holds the key.

6. Globalisation – who holds the key? (5)

Values

Lack of tolerance and no readiness to share economic wealth may trigger off more fundamentalism, more nationalism, more inequality undermining the support for globalisation.

The **Key**: Change our mindset.

OUT: Nationalism – nation-states – sovereignty
Von Clausewitz model: Crisis – Conflict – Confrontation → War.

IN: Transnational forces, supranational enterprises, international organisations, cross border pressure groups, multinational civic society.

New Strategic thinking: Co-operation – Compromise – Consensus → Global Governance.

7. Conclusion.

- Two seminal issues:
 - Shift in power to Asia.
 - Will globalisation continue and if yes in what form.
 - US ambition to hold on. The rising powers want more influence.
 - But apart from rogue states no one contests the existing system as such or forward a new model.
 - The conditions are ripe for consolidating international institutionalisation. Will it be used?
-

Jørgen Ørstrøm Møller

www.oerstroemmoeller.com
