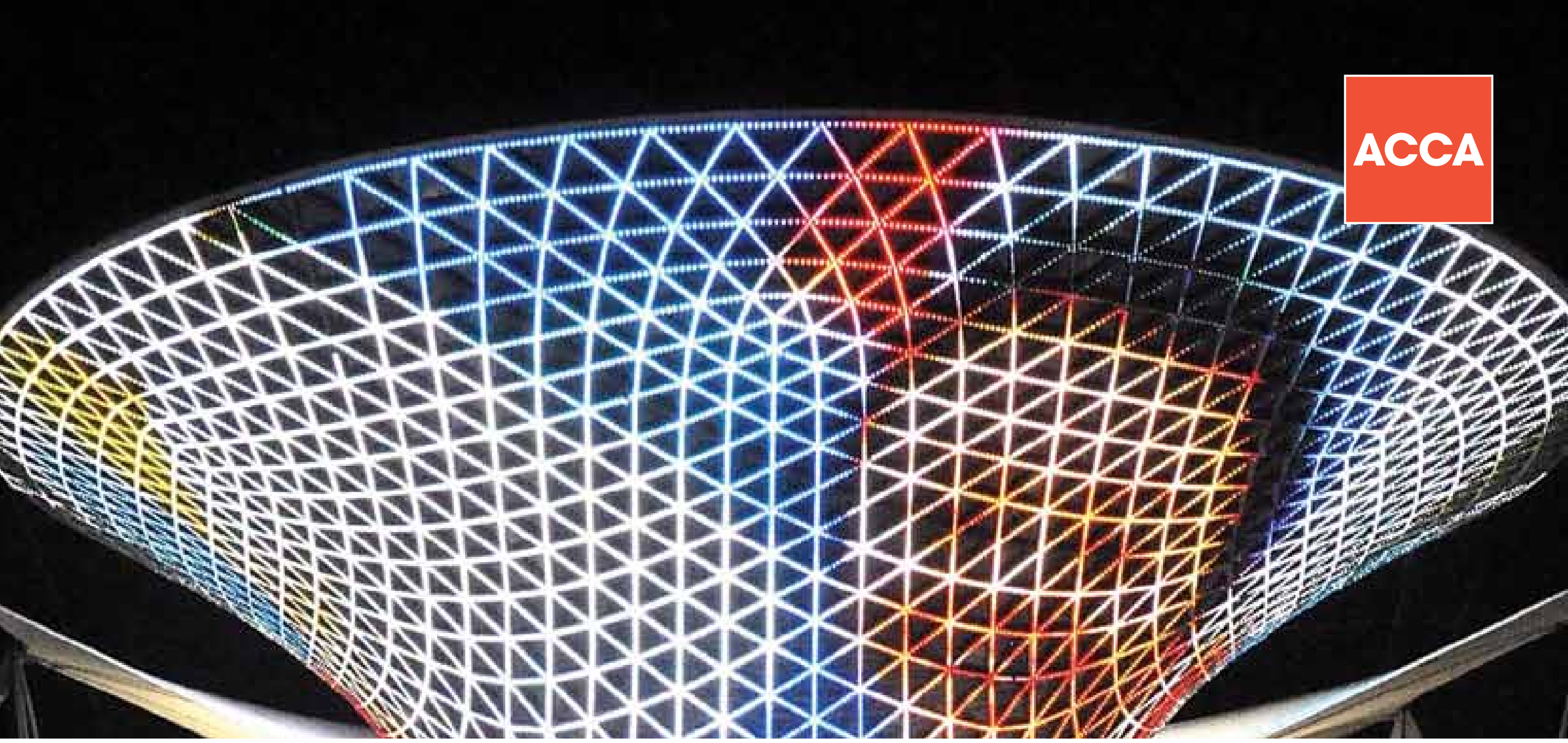

ACCA

ACCANTANCY FUTURES

Where next for the global economy?

A VIEW OF THE WORLD IN 2030

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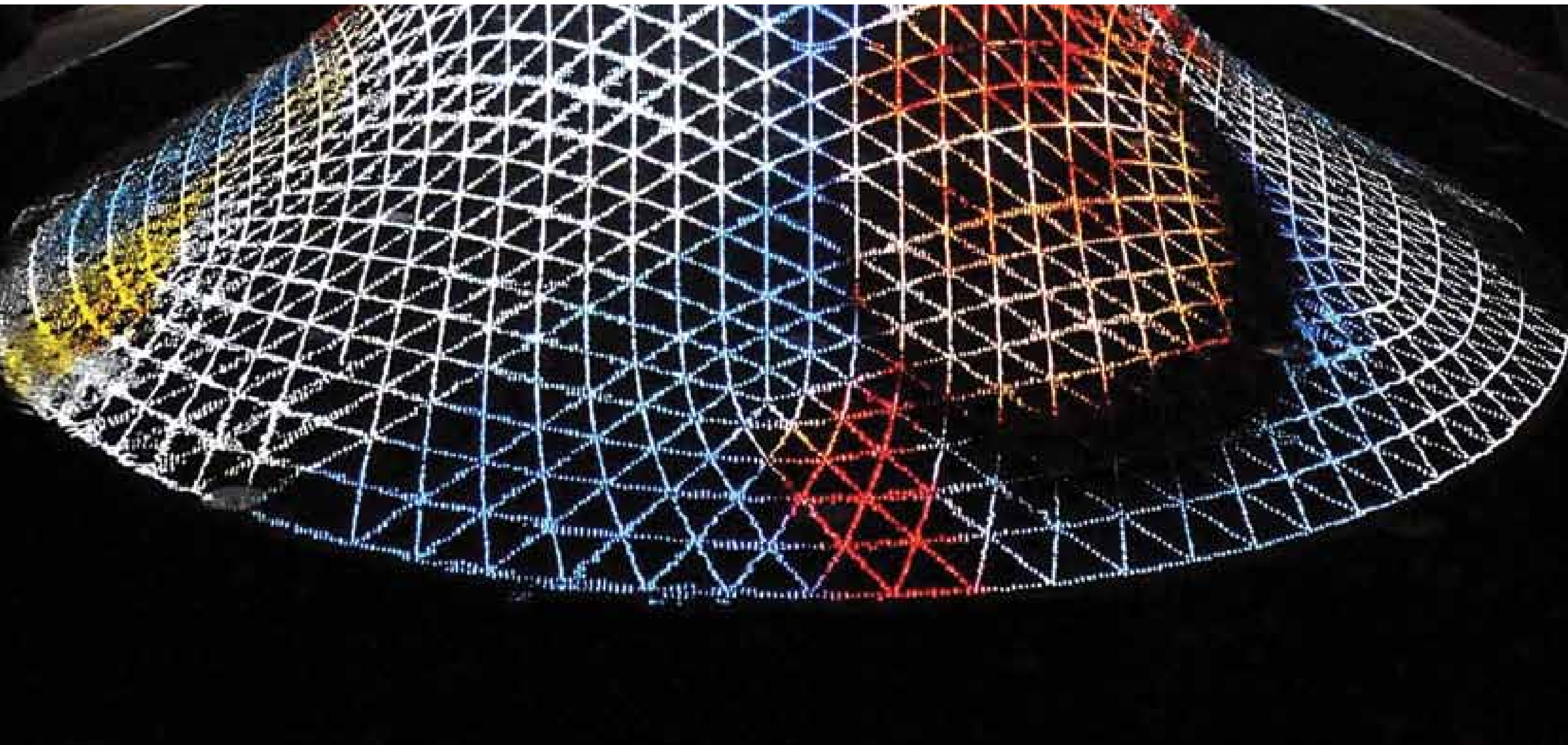


> **The present system of global cooperation is not working sufficiently. [We need to] look at all issues on the global agenda in a systemic, integrated and strategic way. We have to rethink our values; we are living together in a global society with many different cultures. We have to redesign our processes; how do we deal with the issues and challenges on the global agenda?**

KLAUS SCHWAB, PRESIDENT AND FOUNDER OF THE WORLD ECONOMIC FORUM, JANUARY 2010

ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies at all stages of their development. We seek to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualification, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

We support our 140,000 members and 404,000 students in 170 countries, helping them to develop successful careers in accounting and business, based on the skills required by employers. We work through a network of 83 offices and centres and more than 8,000 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

The global panel of experts

The views expressed in this document are the personal views of the participants and do not represent the views of their employers or institutions in the employers' group or holdings.

VERENA CHARVET
Managing lawyer, Invesco; former legal counsel at Barclays Wealth; former principal at Barclays Global Investors

JOHN DEFTERIOS
Correspondent, CNN Business News and presenter/editor of *Marketplace Middle East*

ANDREW DILNOT
Principal of St Hugh's College, Oxford University; economist; broadcaster; former director of the Institute for Fiscal Studies

ANTONIO ESTRANY Y GENDRE
Chairman, Axial Analytics (financial analysis outsourcing company); former member of HSBC's executive committees (Argentina and Americas region)

PROFESSOR SAUL ESTRIN
Professor of management and head of the department of management, London School of Economics and Political Science

CHIN KWAI FATT
Managing director, PricewaterhouseCoopers, Malaysia

MARK GOYDER
Founder director, Tomorrow's Company

TONY HEGARTY
Chief financial management officer, World Bank

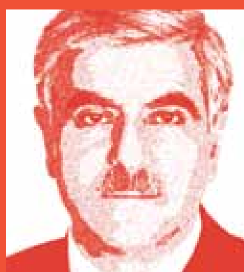
LOUGHLIN HICKEY
Global head of tax, KPMG

MIKE HOBDAY
Partner, IBM, and former CEO of Atos Consulting

JAPHETH KATTO
CEO, Ugandan Capital Markets Authority

NENAD PACEK
President, Global Success Advisors

PROFESSOR MAURY PEIPERL
Professor of leadership and strategic change, and chairman, business advisory council, IMD Business School, Switzerland



ABBAS SHOJAEI
Founding partner, Salehandishan & Co (audit firm), Iran

MALCOLM WARD
Leadership team, Grant Thornton UK

Foreword

This report presents a vision of the world in 2030.

The global economic crisis that started in 2007 continues to demand short and medium-term solutions from politicians, business leaders and other opinion formers. However, in creating new regulatory bodies, commercial structures and globally coordinated approaches, leaders must consider the future impact of short-term measures. While debate continues on the outlook for global capitalism, we explore the implications of our changing world and offer a view of the global economy in 2030.

In order to do this, ACCA discussed several hypotheses with a global panel of experts, asking them how they believe the world might evolve over the next 20 years. The panel includes independent business leaders, economists, academics and commentators from around the world. Their insights on the future of the global economy provide new parameters within which we explore the business and government dynamics that will shape the next two decades.

At ACCA, we work closely with employers – from multinationals to SMEs, governments and regulators to develop the global accountancy profession. In doing this, we understand that accountancy can advance only with a deeper understanding of the direction in which global economic forces will take us. This research study was conceived to provide this critical context essential to the long-term development of the profession and demonstrate the value of accountants for business.

Where next for the global economy? is designed to help you navigate today's challenges through an understanding of how our actions will shape the world of tomorrow. We share our panel's ideas and perspectives to help readers make decisions based on the collective understanding of those at the forefront of debate. For ACCA, these perspectives frame the issues that we will investigate more deeply in our ongoing research.

We would like to thank our panel of global experts, who generously provided their time, experience and insight for this report. We would also like to emphasise that the views they express are their own personal opinions and do not necessarily represent the policy of the organisations in which they work.

Helen Brand
Chief executive, ACCA

Contents

The global economy

Twenty years is both a long and a short time in world politics and history. In 1990, Nelson Mandela was released from jail, Margaret Thatcher resigned from government, Tim Berners-Lee published a proposal for the world wide web and Microsoft launched Windows 3. There were 5.3 billion people in the world in 1990, there are now 6.8 billion. By 2050, there could be more than 9 billion[1].

The global economy is now at a tipping point; previous interpretations of success, growth and global stature have been based on movement in the Fortune, FTSE, CAC, DAX and Hang Seng indices, tracking multinationals based in a few dominant countries. This interpretation is now radically changing to recognise the regional strengths of diverse and complex markets, family business and a 'global mittelstand' of small and medium-sized enterprises. These strengths will define the global economy of the future.

Futurology is an uncertain, even impossible art, demonstrated by the global financial shocks of the past three years. Although we cannot predict the future, we can be better prepared for it. By presenting possible scenarios for the global economy, we gain some clarity around the strategies we need in order to steer and prepare for the course ahead.

What might this course look like? Broadly speaking, we see a future where globalisation will continue and will lead to a world that is 'flatter'. Our understanding of evolving globalisation will be shaped by the strengths that we perceive among different regions. At the corporate level, we expect to see the emergence of a 'world of shopkeepers' and new federations of businesses, with greater collaboration between people, businesses and markets. This collaboration will be supported by increasing regulatory harmonisation and convergence. So the future for global business looks more complex, more fluid and less clear cut. Despite this, our panellists viewed the journey we face with a huge degree of optimism, based on the individual and collective adaptability of the human race.

Our expert panel was given hypotheses which explore the extent of potential change as springboards for discussion. Panel members shared their personal views, which we have interpreted and shaped into five specific areas.

1. **Distribution of global power**
   A much bigger group of countries now dominates global debate. Originally steered by the G5 – France, Germany, Japan, the UK and the US – the global economy was increasingly influenced by Belgium, Canada, Italy, the Netherlands, Sweden and Switzerland, leading to the G11. Recognising the impact of developing economies has led world leaders to accept the G20 nations as the new global base and embrace an ever wider group in global economic debate, as economic power and influence spreads.

2. **Resources: scarcity and competition**
   The competition for natural resources will become more intense. This will result in the need for a more coordinated, international approach to accessing and securing sufficient resources such as oil – the most important commodity in the past century – but also food, basic and precious minerals, and water.

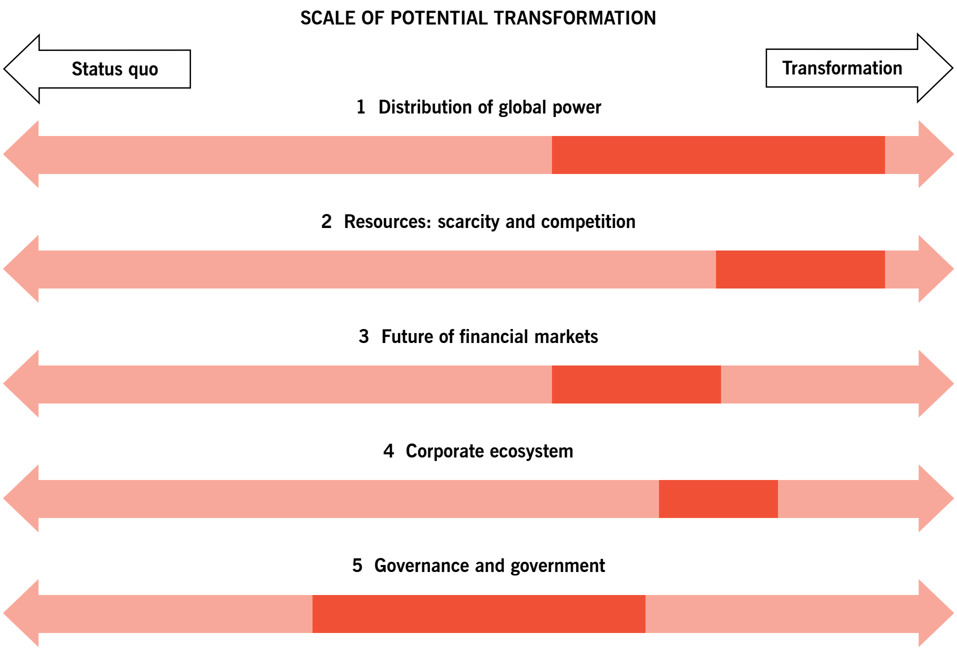
3. **The future of financial markets**
   Global markets are expected to grow but in markedly different ways depending on regions, resources and partnerships. Financial regulation will converge across markets as international regulatory cooperation continues. This will facilitate an increase in the sources and destination of funds and the volume and value of global capital flows.

4. **The corporate ecosystem**
   Specialisation continues as businesses look for cost and scale advantages by placing elements of their value chains in the optimal locations. An increasingly virtual network of entrepreneurial businesses will seed, connect and collaborate on a global scale. We call this a 'world of shopkeepers'. This will form a system of specialist SMEs that will resemble more composite, successful and culturally adaptable 'federations of businesses': the multinationals of the future.

5. **Governance and government**
   The future role of governments is defined by an emphasis on either the facilitation of private enterprise or 'policing the system'. Is there a coherent middle way suitable for all nations, regional groups and the world economy? Rigorous governance and assurance is critical as the globalisation of business continues: new systems will emerge to keep the world of shopkeepers on the radar, and more principles-based regulation will increase self-governance and responsibility within federations of businesses.

1 United Nations Department of Economic Affairs (Population Division)

FIGURE 1: RANGE OF POTENTIAL TRANSFORMATION OUR PANELLISTS FORESEE IN EACH AREA



MULTI-REGIONAL GLOBALISATION

Each area above shares a common theme: the 'Western' view no longer dominates the evolution of global markets. Global capitalism is changing and we need to view the future through a different lens. But how do we do this?

Our hypotheses enable us to explore new visions and test ideas – some received, some new – and to enter into wide debate with a range of experts from around the world to explore future directions and consider their likelihood and impact.

At the tipping point of globalisation we look at five foundations for growth that will facilitate regional success in 2030.

We present a selection of our panellists' thoughts about different regions. It is clear that regions possess key defining characteristics that they can harness to shape and secure their future course on the global stage.

ACCA'S PERSPECTIVE

As the global body for professional accountants, ACCA is seeing significant shifts in economic power around the world.

Twenty-two years ago, ACCA became the first international professional accountancy body to enter mainland China. Here, ACCA witnessed an immense appetite for professional skills in order to support and fuel enormous economic expansion. Since then, the rise of the BRIC nations and, more recently, the N-11 countries has heralded a new world order, with established Western companies competing – and collaborating – with an ever-wider and more diverse range of economic entities. Alongside this, the demand for professional accountants trained to a high international standard to support burgeoning economies around the world has continued to grow apace.

Through over a century of work in creating finance professionals, ACCA knows that talent and ambition reside everywhere and anywhere. And that, given the right conditions, business can flourish in any corner of the world.

ACCA's long-term mission has been to support the development of all types of economies through the supply of high-calibre professional accountants. As a result, it has established operations in 26 emerging markets around the world, contributing directly to building financial skills capacity. Through this work, ACCA is already witnessing the immense contribution emerging markets are making to the global economy – and seeing the potential for an even greater role for these markets in the future.

For this reason, ACCA foresees a future world economy with more parity and a much wider range of key players, sharing power and influence around the world and bringing with it greater global prosperity. To underpin this, ACCA believes it is increasingly necessary to have a single set of high-quality accounting and auditing standards, facilitating the maximum mobility of talent and investment.

As the panel asserts, it is inevitable that we will see intense pressure on natural resources in the next 20 years. This report contains some staggering figures on population growth and future consumption, fuelled by the ambitions and aspirations of a new global middle class. The twin spectres of dwindling natural resources and the impact of climate change loom large. The extent to which these affect society will depend on the decisions organisations and individuals make now. The danger is, that by failing to invest in the creation of sustainable business, the world risks harming the environment irreparably – rendering parts of the planet uninhabitable, creating swathes of economic migrants and placing the global economy in perpetual peril.

ACCA believes that the creation of a genuine global green-collar economy will therefore not only be vital but also brings with it exciting possibilities for smarter technologies and businesses. Accountants will have a key role to play in bringing about a low-carbon world through leading on the disclosure of companies' carbon emissions and the auditing of these disclosures to quantify and promote the financial consequences of climate change.

As a driver for this, ACCA believes it will be imperative to have a common, internationally accepted carbon accounting standard.

If we accept the premise that there will be a greater number of players in the international economy, there will be a need for global approaches to regulation across the board. But ACCA supports the panel's view that this will be best achieved through close collaboration between nations, rather than through the creation of monolithic super-regulators, operating at a distance from the markets they serve. ACCA believes that regulators need to be local and close to those being regulated and therefore priority needs to be given to the creation of mechanisms which will allow for the sharing of knowledge and best practice between national regulators.

With the plethora of business models and structures we are likely to see emerging in the next 20 years, ACCA strongly supports the panel's view of the need for small, light-touch and straightforward regulation, especially for small businesses. ACCA believes these enterprises will increasingly spearhead innovation and creativity and they need every encouragement to thrive. This links very clearly with the key enablers for growth the panel identified, with entrepreneurial spirit being seen as a major contributor to the future success of national and regional economies. ACCA has taken a lead in lobbying for the interests of SMEs with governments, regulators and standard setters across the world, helping to position itself as the accountancy body most closely affiliated to the small business sector. To maintain the health of the sector and enable new businesses to prosper in the future, re-establishing good access to finance for small businesses will be critical. For the larger, more complex global organisation, it is inevitable that regulation will need to be both more hands-on and collaborative across borders.

ACCA is already championing a number of themes highlighted by this report, through its *Accountancy Futures* programme of theme-led research and insights, helping prepare the accountancy profession for the immediate and longer-term challenges the future global economy will bring.

www.accaglobal.com/af

Hypothesis In 2030 the world will be 'flatter', with an expanded base of financial power. Global power will shift to new emerging markets.

THE WORLD BECOMES 'FLATTER'

The world stage is fundamentally changing as a result of globalisation and the growth of emerging markets. In 2030, our panel expects these trends to have led to a 'flattening' of the economic landscape; many of them predict that in 20-years' time there will be a more genuinely global marketplace, where regional barriers to the flow of goods, services, capital and knowledge will have been lowered or even dismantled.

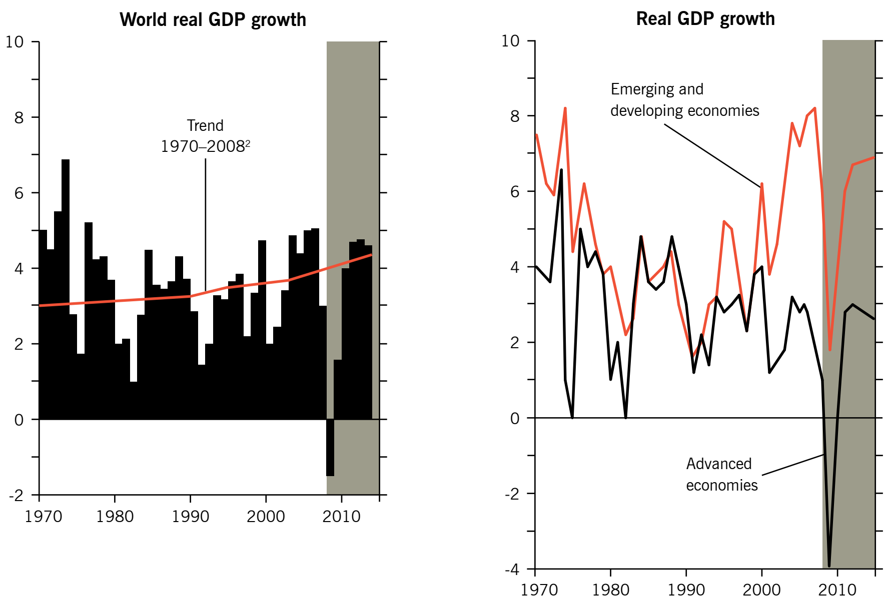
Fewer constraints to globalisation will lead to more competition. Yet this is not seen in terms of a battle, or a race. The panel was united by a feeling of optimism; they see the countries of the world as predominantly sharing in its wealth, helping each other along. Thus, it will be less a game of winners and losers and more a case of having all the players on the same team, with advanced and emerging economies learning from each other; ideas, capital and ways of doing business will increasingly flow between the two.

Chin Kwai Fatt, director of PricewaterhouseCoopers, Malaysia, says there will be a rebalancing of the world economy as it adjusts to the financial crisis by becoming less heavily dependent on the US: 'If the resulting landscape is such that these emerging economies will have a greater role, there will be a higher degree of mutual dependence – to the extent that we will not just be relying on the US domestic market. Hopefully emerging economies will create new market "clusters", which in turn will promote two-way economic potential between the US and other trading nations. It will therefore become a two-way flow, rather than a parallel universe where goods are shipped to the US while capital is shifted to the East.'

"It's terribly easy to describe the world economy as though it's a war or a race. If it is a race, it's a peculiar type of race where whoever wins crosses the line, turns around and explains to everyone else how to win."

ANDREW DILNOT, PRINCIPAL OF ST HUGH'S COLLEGE, OXFORD UNIVERSITY, ECONOMIST, BROADCASTER AND FORMER DIRECTOR OF THE INSTITUTE FOR FISCAL STUDIES

FIGURE 2: WORLD REAL GLOBAL GDP GROWTH – ANNUAL PERCENTAGE CHANGE[2] AND REAL GDP GROWTH IN ADVANCED AND EMERGING ECONOMIES[3]



2 *IMF World Economic Outlook 2009*
3 *IMF World Economic Outlook 2009*

> **"The business world will be astonished by the rise of new companies from emerging markets at how powerful they will become. They should not be underestimated in any way."**
>
> NENAD PACEK, PRESIDENT, GLOBAL SUCCESS ADVISORS

> **"In 2030 the largest economy in the world will be the US, the second largest will probably be China, followed by Japan and Germany. There could be a shift but it won't be a transformation."**
>
> SAUL ESTRIN, PROFESSOR OF MANAGEMENT AND HEAD OF DEPARTMENT OF MANAGEMENT AT LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE.

The driving force of globalisation is therefore no longer expected to be the multinational companies of advanced economies. Instead, world growth will be powered by international companies based in emerging markets.

The signs of growing maturity are increasingly apparent. The number of multinational companies from emerging markets in the Fortune Global 500 has more than tripled over the past decade; there were 70 in 2008[4], and emerging markets' share of world trade is growing, along with their importance in global equity markets. Their 6.5% average GDP growth from 2000 to 2007[5] has sparked a large rise in the number of emerging market equity funds that are promising attractive returns. After the recovery from the Asian financial crisis in the late 1990s, private capital flows to low- and middle-income economies more than quadrupled from $200bn in 2000 to more than $900bn in 2007[6]. The financial crisis that started in 2007 has highlighted this process, throwing into sharp relief the weaknesses of the financial structure in some advanced economies and the relative strengths of certain emerging markets, particularly in terms of debt-capital ratios.

We therefore see a new global power-base forming. The increased prominence of the G20 will have recalibrated the stature of emerging markets in 20-years' time. The world in 2030 is expected to be characterised by multiple centres of economic power and numerous financial poles.

WHO WILL DOMINATE THE GLOBAL POWER-BASE IN 2030?

In a flatter world the extent to which global power will shift can be seen in different ways and we offer three possible scenarios for the redistribution of global power.

1 A new centre of gravity – emerging markets, primarily in the East

The first scenario envisaged by some panellists is a world where political and economic power will be inverted and the new centre of gravity will lie in the East, particularly in emerging markets, with a relative decline of the West.

The high-growth scenario of the World Bank predicts GDP growth in emerging markets will continue to outperform that of the developed economies. Nenad Pacek, president, Global Success Advisors, notes that the economic fundamentals in emerging Asia, the Middle East and key markets in Latin America and Central and Eastern Europe are notably stronger than those of the Western European markets, the US or Japan. He points to the former's record accumulated foreign exchange reserves and lower national debt.

In this scenario, the doors would open on a new East–East axis of power. Capital flows between emerging markets would continue to increase as these countries move away from dependence on the current developed world and access to finance improves. This axis of power would see a reinvigoration of trading routes stretching from emerging Asia to the Mediterranean via North Africa.

John Defterios, correspondent, CNN Business News and presenter/editor of *Marketplace, Middle East,* says: 'The building of the new silk route and the new spice route is a key theme for the future. It runs from North Africa to the Middle East, to Central Asia, to China and then moves down into South East Asia. Five years ago there was a reluctance to foster trade between, for example, China and the Middle East, but that has changed dramatically. That is because the return on capital for a Middle Eastern sovereign wealth fund in say Indonesia, Malaysia or China, is much greater than it would have been in Germany, France, the UK or the US.'

4 *The rise of the emerging market multinational*, Accenture 2008
5 *World Economic Outlook 2009,* World Bank
6 World Bank

The most important countries in an Eastern axis of power would be the two Asian nations of China and India. As Andrew Dilnot, principal of St Hugh's College, Oxford University, says: 'In 25-years' time, real GDP in the developed world will have doubled. If China and India grow at 8% a year, in 2035 they will be five times as large as they are now. The relative size of those two massive developing economies will be the most significant change in a 20-year timescale.' Japheth Katto, CEO, Ugandan Capital Markets Authority, relates that in Africa the increasing influence of India and China in particular can be felt: 'I can see a very strong shift, particularly in Africa, in where foreign direct investment, assistance, trade and so on is coming from. For instance we have seen Indian companies getting into telecommunications and China getting into banking.'

The IMF estimates that by 2030 emerging market economies will be home to over 80% of the world's population[7] and that their sheer size will create the world's largest middle classes with spending power. Their rise will be accompanied and supported by nascent economies that will build on their own competitive advantages, and that will include and leverage this growing middle class. As Pacek says, the G20 will expand to accommodate such rising powers: 'There are many good, exciting emerging markets out there – sizeable ones – and they will grow even further in the next five to 10 years. They will want a say.

These powerful countries will predominantly lie in emerging Asia, with some in Central and Eastern Europe. Growth in other emerging markets will be led by commodity exports; their businesses will continue to flourish because they are not yet restricted by tight regulation and laws. It will be the emerging markets that will produce most of what our panel call the new globalists – the leaders of tomorrow – who will increasingly demand a stake in global forums, creating a shift in global political leadership.

In this scenario, mature economies would record relatively slower growth and be dependent upon emerging markets for capital, consumers and labour. In Defterios' words: 'The G8 will not be able to live within its own environment any more. There will be a gravitational pull to the East.' This relative shift in power would have a major impact on the construct of business as we see it today. For instance, as emerging trading blocs strengthen their economic and political unity, the world will not necessarily continue to be driven by the US dollar. In addition, dominant multinationals headquartered in advanced economies would play a diminished role in global business – losing the edge to international companies from emerging markets.

2 A shift but no transformation – the rise of the new West

In a scenario where economic power shifts but strengthens in the West, today's advanced economies would continue to show their prowess for innovation. Their political and economic stability would restore growth and keep them at the top of the value chain. They would continue to be the 'incubators of ideas', with emerging markets continuing to emulate the model of Western consumerism.

As this model dominates the world, smaller Western economies would increase their participation in the global economy, extending the G grouping. These smaller economies would embrace entrepreneurialism with a political momentum that helps them step out of the shadow of the more dominant Western economies. But will innovation really be about larger or smaller, Western or non-Western countries?

Antonio Estrany y Gendre, chairman, Axial Analytics, former member of HSBC's executive committees (Argentina and Americas region), sees country borders as rather insignificant, arguing that the next Microsoft could just as easily come from China or New Zealand as the US. But he notes: 'It's more likely that innovative developments will happen in markets that are stable and have an entrepreneurial tradition and mindset.'

With economic power concentrated in the West, the developing economies of today would continue to show strong GDP growth, biting at the heels of the West in 2030. China and India will come closest to closing the gap, and they would continue to have more weight in global discussions, playing a part not far from their current role.

3 Global musical chairs – a dance of nations in different positions on the value-added chain

In this scenario panel members see no defined global order in the value-added chain. Verena Charvet, managing lawyer, Invesco, formerly a legal counsel at Barclays Wealth and previously a principal at Barclays Global Investors, says: 'I don't think that [the future distribution of global power] is clear cut. As people want to move up the chain, where does, for example, China go? If China moves to Korea's position, where does Korea go? From within each country you are constantly looking for the least expensive place to get things done, so it is fluid. For example, call centres were initially based in Scotland, then they went to Hyderabad. Hyderabad became too expensive, so they went to Pune. There is always someone looking for a cheaper environment.'

Saul Estrin, professor of management at the LSE, points to a typical development cycle, with countries joining each other 'on par' rather than displacing each other. 'The point is, as all these countries develop they all do the same things. France and Germany basically make exactly the same products and trade with each other. In 100 years from now, China will make the same products as the US and trade those products with the US. There's a value-added chain and everyone just moves up it.'

So the third scenario would play out like a dance of different regions: the power of nations would shift continuously depending on where they are on the value-added chain of production at any one time. They will define their own competitive strengths and no single region will be more important than another. This would be a world of true interconnectivity and mutual dependence, with more balanced economic power.

7 *World Population Prospects 2008*, UN Population Division

Resources: scarcity and competition

Hypothesis Strain on natural resources will increase. The immediate consequences will be rising demand and declining supply. This will generate higher prices, conflict and more economic tension.

> **"Truth so often follows fiction. In *Quantum of Solace*, for the first time James Bond's nemesis is not seeking world domination through gold or nuclear weapons, but through control of that most essential resource for life – water."**
>
> MIKE HOBDAY, PARTNER, IBM AND FORMER CEO OF ATOS CONSULTING

In 2030 sustainability issues will continue to be important and the corporate and social responsibility (CSR) agenda will become much more central to business. Panellists argue that sustainability will no longer sit in business and government silos; instead, it will unite every stakeholder in the global economy.

BURGEONING DEMAND

The bulk of the population growth predicted by the UN Department of Economic Affairs (leading to a possible worldwide population of nine billion by 2050) will be dominated by the developing world. Population in the current developing world is projected to rise from 5.6 billion in 2009 to 7.9 billion in 2050[8]. This will be concentrated in today's emerging markets in Asia, the Middle East and some parts of Africa. Yet the sheer size of this demographic will be eclipsed by the increase of their relative wealth. Income growth in countries such as India and China is leading what has been described as the 'third wave of middle class emergence'[9].

Malcolm Ward, leadership team, Grant Thornton UK, describes his experiences in leading the firm's drive into India, and how in his view, the country demonstrates how demand for goods and services will accelerate. 'On the one hand you see people living on 50 rupees a day, salvaging and recycling everything. But on the other you will see unbelievable wealth and enormous consumption. In the middle of 45-degree heat you will have enormous air conditioned offices and people consuming fresh fish which has been flown in from a good few hundred miles away for sushi. We all talk about India, China, South America… but there is the whole continent of Africa which hasn't really become economically active yet. And the historic model is that economic activity equals huge consumption, so I think if you look at it on a big scale we will have some difficult home truths to face.'

The nascent middle class is creating a boom in discretionary consumption and demand for resources. India's consumer market, for example, is expected to quadruple over the next two decades[10]. And there is no doubt this burgeoning middle class will be a huge force in the world economy. Analysts at Macquarie use the term 'Generation A' – A for aspiration – to describe this group, saying: 'The massive size of Generation A in the next 15 years ensures it will be the most influential and powerful generation in the world's history.'

The Economist featured a special report on this group in 2009 called *Burgeoning Bourgeoisie*. Abbas Shojaei, founding partner, Salehandishan & Co, Iran, says: 'The most likely new consumer market will be in areas such as the Middle East, which has a concentration of wealth from oil, gas and other rich minerals. The aspiration generation will also be in countries like Iran where there are lots of young, talented people who have not had the chance to prove themselves so far, but if the environment becomes more favourable, the energy and ambition will attract foreign investment in such countries.'

With an explosion in demand on the horizon, prices of hard and soft commodities, energy and transport could soar. As Generation A moves away from subsistence farming, its diet and consumption patterns will radically change. The provision of food has been named as one of the four emerging global risks of the 21st century by the World Economic Forum[11].

8 *World Population Prospects 2008*
9 Surjit Bhalla's forthcoming work (*The Middle Class Kingdoms of India and China*). The first wave was in 19th century Western Europe, the second was in the baby boomer (1950–80) generation in developed countries.
10 McKinsey Global Institute
11 *Global Risks report 2008*, World Economic Forum

A PROFILE OF GENERATION A

- Age: 30–40 years
- Earnings: $3,000–$5,000 per year (approx)
- Characteristics: have moved to a larger city
- Consumer possessions: fridge, low-cost mobile phone
  Considering buying: first car or first holiday
- Whereabouts: scattered across the globe, concentrated in the emerging markets
- Numbers: 2008 – 400 million; 2030 – 1 billion

Source: Macquarie Investment Bank

To get a sense of how global consumption patterns will change, we must look to emerging markets. China, for example, is the biggest market for mobile phones, with more than 395 million subscribers. In 2007 it overtook Japan as the world's second-largest car market. The world's second-largest soft drinks market is Mexico. Out of the world's six largest energy consumers, three are middle-income economies: Russia, China and India[12].

As consumer markets grow and companies strive to take advantage of the opportunities they present, there will be a significant impact on the demand for, and management of, resources. Changing diets, increased demand for food, rising demand for energy that requires water and the increasing use of biofuels have already put pressure on water resources in the US and Brazil. In fact, by 2030, 40% of global GDP and 85% of the world's population will be in regions where water demand exceeds supply[13].

In terms of energy, global demand is expected to soar 44% over the next two decades. Almost 75% of the rise in global energy demand up to 2030 will occur in developing countries, particularly China, India, Russia and Brazil[14].

UNCERTAIN SUPPLY

'If you have a global economy in which there is exponential growth in the population and the world's resources remain constant, then you have a problem. So I think the long-term future supplies of gas, electricity, new forms of energy, food and water – things we take for granted as being readily available today – are going to be a problem. We are all going to have to be a lot smarter about managing demand and consumption,' says Mike Hobday, partner, IBM.

The ongoing depletion of world resources is well documented. Some panellists raise questions as to whether these concerns have been overstated. Pacek argues that it is difficult to address and assess the resource issue because the negative angles have been overplayed. He suggests that it is likely there are more reserves than have been documented and that changes in prices do not reflect either the fundamental reserves or underlying market demand. He says: 'The one thing that is certain about commodity prices is you will see continued speculation as we have seen over the past 10 years. The oil price moved from $9.60 in 1998 to almost $150 within a decade. And at the same time, real oil consumption around the world wasn't even growing more than 2% a year. The price movement over the past five years has nothing to do with the fundamentals and the actual usage.'

Official Organisation of Petroleum Exporting Countries (OPEC) statistics are more bearish. OPEC will continue to provide 40% of the world's oil supplies during the next 20 years. McKinsey calls oil exporters one of 'the new power brokers' – and one that is remaining resilient[15]. The Energy Information Administration report concludes that although the demand for oil is increasing, the world's oil production peaked in 2005[16]. And most of our panellists agree with this view of diminishing resource supply.

THE ECOLOGICAL CREDIT CRUNCH – A TAX ON ECONOMIC GROWTH

However, more pertinent than the absolute levels of resources is the struggle for access. This is a feature that will also be important for those areas where natural resources are plentiful. Katto says: 'The winner is going to be the one who has access to those resources. If they have access to them and this access is cheap or economical, they are going to win because the battle of the future is going to be a battle of resources. It is a battle for oil, a battle for minerals, for food, and so on. To me, the world's future resources are in Africa.'

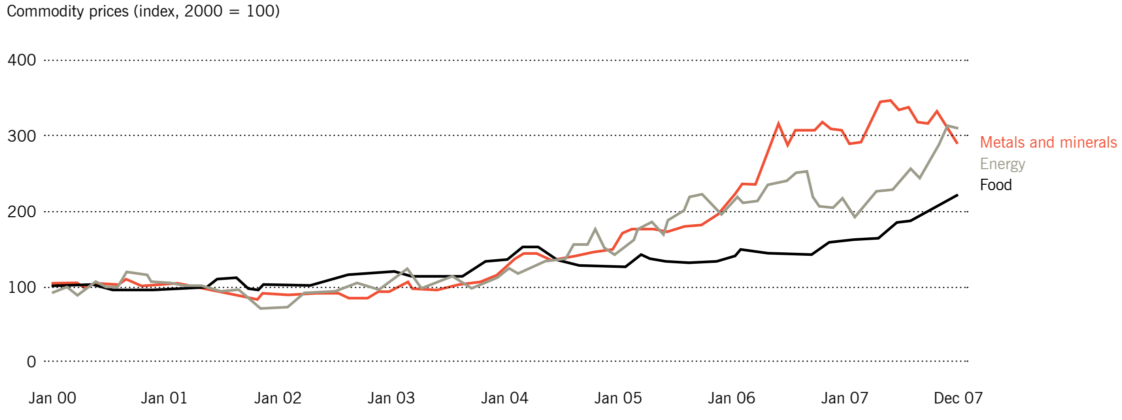
Uncertainty over resources stretches well beyond oil and energy. Demand will rise for food, water, steel, cement, basic metals and minerals and other land resources. This will necessitate a wider view – one that reaches into a region where participation in the global economy is patchy and whose potential is, some argue, unrecognised. In accessing resources in Africa, the challenges are considerable, including a lack of infrastructure, high cost of access and distribution, political complexity and unknown levels of appropriate expertise.

The issue is fiercely political and the panellists see an element of nationalism affecting the development of this particular story, reflected in increasingly common references to national issues such as 'energy security' and 'food security'.

Many panel members assert that economic growth at the rate we have witnessed over the past few decades

12 *The challenges to government from the multi-polar world,* Accenture 2009
13 Water scarcity and future business risks, Lloyds, April 2009
The United Nations World Water Development Report 3, UNESCO 2009
UN water statistics database
14 Energy Information Administration/International Energy Outlook 2009
15 *The new financial powerbrokers 2008* and *The new financial powerbrokers: a crisis update 2009*, McKinsey Global Institute
16 Energy Information Administration/International Energy Outlook 2009

FIGURE 3: HISTORICAL COMMODITY PRICES[17]



is ecologically unsustainable. 'If there is going to be a hot zone for conflict, it will be where there is strained access to natural resources, especially oil, gas and water,' says Defterios.

Some argue that the impact will be felt disproportionately by developing countries. As Estrin says: 'You can think of global warming like a massive tax – an unstoppable, unsustainable tax on economic growth, which will fall disproportionately on the poorer countries.'

In the short-to-medium term, commodity prices are likely to continue to fluctuate, creating more tension over access to, and the management of, these resources.

THE LEAPFROG PHENOMENON

Some panellists point to a more optimistic resource scenario in which countries developing clean technology could partner with emerging markets, enabling them to leapfrog the use of resource-wasting technologies and adopt clean, greener technologies to fuel their growth. As Defterios says, shortages can be avoided 'by focusing on the scientific and technological advances necessary to respond to the growth in worldwide demand, driven primarily by emerging economies. This is where collaboration between East and West should prevail and where G8 countries can make a difference.'

17 World Bank Development Indicators 2009

The future of financial markets

Hypothesis The levelling global playing field will increase competition among countries for access to finance. More volatile global markets will become the norm. There will be more regulation carried out on a global level to reflect the ability of companies, capital and people to flow across borders.

When discussing the future of financial markets, one question dominated the debate. Will we see a faster economic cycle in this millennium whereby we have to cope with recessions recurring in ever shorter timeframes?

'Yes we will go on having recessions, but I don't think they will be any more frequent than they have been in the past 40 years. It will be astonishing if we ever have a gap between recessions as long as the gap we have just had again. And sometimes it will be a financial crisis, sometimes it will be a war, sometimes it will be a commodity-led crisis. We can't know what they will be, but they will happen,' says Dilnot.

WHAT WILL GLOBAL MARKETS LOOK LIKE?

Past performance is no guide to the future – at least that is the usual caveat for investors. But it's difficult to make projections without looking back at major trends.

The summer of 2007 and the ensuing financial crisis marked a watershed: not only the beginning of the deepest shock and recession that the world has seen since the Great Depression, but also the end of an extraordinarily long period of economic growth in the advanced economies. As Dilnot says: 'If you plot quarterly growth for the UK, back to 1955 what you see is, for the past 16 years, astonishingly consistent economic growth. There was a recession in the early 1990s, before that, eight years of economic growth and then, before that, far more frequent recessions, an astonishingly volatile economic performance in the 1960s and 1970s. We shouldn't be surprised there was a recession in 2008–9. We should be staggered that there hadn't been a recession for 16 years. We have never in the industrialised period seen a gap quite like it.'

Pacek points to GDP growth in the past few years as indicative of this trend: 'If you look at the annual growth rates and business sales growth rates that we had in 2006 and 2007, the annual increases were incredible.'

A number of the panel members painted a scenario for the future in which global economic growth will continue but likely slow, in large part, because the financial crisis has sown caution in the minds of bankers, corporates and governments. Pacek warns that growth rates akin to the past decade will be unlikely until well after 2030. He says: 'All markets have one thing in common. Their growth will be slower than in the high-growth years and we are now entering an age of economic moderation.' This caution will prevent another boom or bust similar to the one we have just seen for some time, perhaps even for a generation.

Other panellists paint an alternative scenario: a world in which 'normal' rates of economic volatility will return after the crisis, and increase in frequency as countries get richer. The result? Sharper and deeper highs and lows. As Dilnot explains: 'Looking forward, of course there will be recessions. They are a natural economic phenomena and the probability of a recession grows the longer the economy has been growing. Because the longer the economy has been growing consistently, the less frightened people become and the more they believe their own rhetoric about how brilliant their proposition is. And it is also the case that the longer the economy has been growing, the fewer really good propositions are likely to be left out there. If an economy has been struggling for 10 years, then there will be some really good projects available. But once an economy has been growing for 15 years, then all the lower hanging fruit will have been picked. So we will go on having recessions.'

Dilnot also emphasises the differential effects on different types of economy and at different stages. 'It's also the case that I think when we have recession it is likely to be sharp. And the reason for that is to do with how rich we are. Say the economy grows at 2.75% a year, GDP doubles in real terms every 25 years, quadruples every 50 years. So we are massively richer than we used to be. As we get richer the composition of our consumption changes. Much more of it becomes discretionary and centred on durables, and that means the speed with which domestic consumption can contract increases, as the average wealth of an economy rises. And that is why we see such a sharp contraction this time around.'

HARMONISATION OF REGULATION

Whatever comes next, we know for now that the financial crisis has thrust financial regulation firmly into the global spotlight. How, we asked our panellists, do they expect the world regulatory environment to be different in 2030?

The panellists focused on two priority areas: international regulatory cooperation and, in particular, convergence in global financial regulation, In both areas, they expect to see ongoing progress. In theory, panellists agree that global financial regulation is sensible and that it should be a priority. It is increasingly important to put in place global cooperation to solve global issues, because capital, people, companies and pollution are global. Thus, the means by which we resolve such issues must also be global.

'There is a big shift towards convergence between international standards and the US accounting standards for example, so I think that's probably indicative of the convergence that we see. And likewise particularly with the benefit of the recent financial crisis you'll find that the global regulators will probably have a greater sense of urgency to cooperate and aim for consistency across the board,' says Chin Kwai Fatt.

There are gains to be had from being part of a group where everybody does things in the same way. Also in parts of the world that are not otherwise large enough in themselves, businesses will cooperate even though no jurisdiction requires them to do so because the alternative would be to lose competitive advantage. Agreement on harmonised standards is a positive development, with national authorities expected to ensure that they are implemented locally. This will prevent the danger of regulatory arbitrage.

There are, however, several barriers and even dangers. It is important that globally agreed standards and guidelines do not translate into a rigid one-size-fits-all approach where local conditions are overridden and regulation becomes too remote from those being supervised. There has to be an element of flexibility, with innovation not being crushed. This of course runs the risk that some countries prescribe too much detail and others not enough but that is the price of national authorities and laws continuing to be the basis of our regulatory system.

The alternative, which would be to try to establish a true global super-regulator, would present extremely difficult challenges:

- a global system and framework of regulation implies that there will be one regulator. Current global institutions do not have the will and the authority to undertake global regulation. In particular, there is increasing resistance to one area or country being the world's 'policeman'. There is also recognition that businesses will need to be involved in the rule-making and the framework-setting. Mark Goyder, founder director of Tomorrow's Company, says: 'Milton Friedman assumed we lived in a world where companies wouldn't deal with things that were the responsibility of society because governments would. But where is the global equivalent of national government? Who is going to deal with all these issues? Effective solutions have barely begun to emerge.' There is some debate over whether bodies such as the World Trade Organisation (WTO) could step in here, but it will take time to shape powers that are effective, meaningful and feasible to implement.
- governments are not inclined to give up their sovereignty and control. Centralised global regulation is complex, both legally – given jurisdictional issues – and logistically. This has cost implications which are difficult to justify to national electorates. The financial crisis could mean more closing of borders and a trend towards more selfishness and protectionism – a go-it-alone philosophy – not for businesses but for governments. It is also more difficult to achieve global cooperation because there is no longer a 'Western club'.

While International Financial Reporting Standards (IFRS) are increasingly accepted as the global standard for financial reporting, progress towards global convergence elsewhere is patchy:

- tax – there is some movement in cooperation regarding tax havens in the European Union, with revenue authorities moving in a similar way, but there is also tax competition, an example being between Luxembourg and Ireland
- trade – a breakdown of the WTO could lead to more protectionism
- finance regulation – there is some progress here, but the terrain is complex, with, for example, disagreement over hedge funds pitching continental Europe against the UK and the US
- climate change – this is a thorny test-case for global cooperation, with huge differences in expectations between the European Union, the US, China, India and developing nations.

While global cooperation over climate change remains fraught with difficulty, panellists see better prospects for international regulatory cooperation by 2030, with the aim of making competition fair. This entails no central monitoring or enforcing body, but greater convergence and more consistent policies. Regulators will have a greater sense of urgency to do this given the recent financial crisis and especially if more volatile markets become the norm.

This does not mean that all regulation will be the same everywhere, but that regulation will use good base indicators, and there will be ways in which regulators work together to achieve fairer competition. Not only that, but the need to involve businesses is well recognised, in order to construct appropriate regulatory frameworks.

Panellists note that there is a long history of international cooperation and harmonisation in certain areas. Transport is the prime example: from the effective implementation of shipping conventions into internationally recognised law (including immigration and import and export customs and practices) to the conventions that govern air transport. These work simply because of the physical movement between two (or more) identified countries.

However, there remains much more to be done in intangible areas even when the results should bring general benefits. For example, information exchange between and within national regulators and across industry bodies remains limited because of the lack of generally accepted standards. The documentation of a cargo ship is relatively simple and universally accepted, but the selection of information to be ready for exchange presents a more formidable challenge in more complex areas such as tax.

Overall, the path ahead for regulation is clear to the panellists. They expect to see more voluntary as well as statutory regulation and perhaps even more self-regulation, as businesses around the world recognise the need for stricter controls in the aftermath of the financial crisis and pressure to demonstrate to stakeholders that they are pursuing sustainable and responsible commercial practices. The path will follow that set for accounting and reporting standards, which provide a framework for regulation and encourage global convergence.

The danger is that regulators will not up-skill at the same time as the companies they are supposed to regulate. Their approach could be a patchwork in which the codification just gets rewritten and becomes more complicated, while not being substantively improved. Moreover, regulators could be subject to partisan political pressures.

A harmonised regulatory environment will certainly be a significant advantage to companies as they grapple with this, and the other key challenge facing them in the short term, which is access to finance.

IMPROVED ACCESS TO FINANCE

If progress is made on the Doha trade agreements and protectionism is a short-term feature, global capital flows will continue to increase in volume and value. Progress on trade cannot be taken for granted, though. Maury Peiperl, professor of leadership and strategic change and chairman, business advisory council at IMD, says: 'The big issue is whether there ever will be a level, global playing field. Since the putative death of the Doha round, and given the many limitations of the WTO, whence will the global playing field come? You have an increase in protectionism now with the recession and so there is competition among countries.'

The panel broadly agree that potential sources of investment will increase, and the sources of best return will not necessarily be in the West. These growing sources of investment and capital pools will create more opportunities for businesses and governments to access finance. The panellists argue that these relatively equal forces of capital investment sources (supply) and more open and easier access to credit (demand) will create a balance. The implication is that competition for access to finance will not necessarily increase for all governments and businesses. Dilnot says: 'Year by year, the number of potential destinations for investment grow. At the same time, year by year the amount of available finance grows. While there will be more competing projects, there will also be more people generating funds that can be used for investment.'

However this access to finance may remain more difficult for SMEs that cannot leverage the resources and networks that larger corporations can. 'Big companies can still access finance; if they cannot go to a bank and get a loan they are usually able to raise corporate bonds at least. And so the real sorts of survivors of the crisis are actually the larger companies that are able to get working capital. There are more pressures on the small ones going forward. So the competition for funds probably in the future will also be more in the SME-dominated states, says Pacek.

The corporate ecosystem

Hypothesis New collaborative and more fluid models for doing business will develop, with new structures and further innovation.

> **"One of the big challenges that we all face at the moment is trying to work out how business will function in different legal jurisdictions. I don't think we can say for sure what sorts of organisations there will be… but I think we can be pretty sure there will be greater diversity – at least for a while – as we all find out which business structures are most successful."**
>
> ANDREW DILNOT, ST HUGH'S COLLEGE, OXFORD UNIVERSITY

More diverse. More complex. More connected. The spectrum of the corporate network in 2030 will shift towards the end of heightened complexity. Yet, with an understanding of the drivers of corporate changes, our panel agreed that this complexity can be managed.

The corporate ecosystem will be comprised of increasingly virtual ties that will continue to connect ever more specialist and remote businesses. This specialisation of businesses will complement and accompany specialisation within regions and cities. This will happen in emerging markets as they work their way up the value chain and seek to define their unique selling points (USPs). As Defterios says: 'Countries are defining their USPs much more aggressively than they would have done five years ago. One can see regions of the world, from a Jordan to an Egypt or Malaysia, quickly defining their USPs – whether it is a call centre, a pharmaceutical hub, a financial services hub, telecoms hub and trade facility – to be able to serve those who have wealth, like the Gulf countries.'

What is the key driver of this specialisation? The impetus for businesses to make cost and size savings to compete on a global scale. This will demand a continuation of scrutiny of business processes causing the breakdown of the value chain into discrete parts. Relocation of these elements follows.

This could be analysed as a two-step system:

1. Remote working in a true world of shopkeepers, embracing both entrepreneurs and SMEs
2. The corporations of the future will be almost an amalgam of specialist businesses, connected through looser agreements and employing a more intuitive form of outsourcing.

A WORLD OF SHOPKEEPERS – THE ENTREPRENEUR'S OYSTER

Entrepreneurialism will be the wave of the future: small businesses will act like a shoal of small fish and become a strong global force in the corporate environment. Smaller companies can get a big footprint through collaboration without the same need for capital, and this will position entrepreneurialism as a currency of growth in the coming decades.

In the emerging and developing economies, entrepreneurialism is beginning to take off. This is expected to continue, driven by increased connectivity and lower barriers to doing business globally – again including increased harmonisation of regulation between regions. As Chin Kwai Fatt says: 'Collaboration is the catchphrase for new businesses. By definition these new small companies will be shopkeepers but at the same time they can provide intellectual capital and operate on a virtual basis with their customers or suppliers. So there could be designers sitting somewhere in Singapore, in Korea, but really providing a service to the manufacturing plants in China.'

The result will be a true world of shopkeepers – not dissimilar to today's world – that will mature into small specialised businesses. And the connections will be loose and reciprocally-structured. As Hobday says: 'Individuals and businesses are increasingly interconnected in this digital age, and the web, combined with new sophisticated devices, is creating open access to a global network of partners, customers, suppliers and ideas.'

Some panellists argue that the rise of entrepreneurialism will be accelerated by the work and life preferences of Generation Y, which could see the rise of a generation of serial entrepreneurs. As Chin Kwai Fatt comments: 'My view is that in particular you have to look at the demographic trends [to understand future business models]. Those in Generation Y are likely to desire more flexibility to do the things they want to do, so in that regard they may decide to keep their businesses small.'

FLUID, FLEXIBLE FEDERATIONS OF BUSINESSES

Corporate structures are constantly evolving. In the 1950s, the structure was typified by big hierarchical companies, monocultural in process and outlook, and with a clear national identity and headquarters. Now, there is a sense that the conglomerate model is no longer required in order to access capital, with the exception of family businesses that choose to retain their independence. There are a growing number of corporate structures that are more fluid and nourished by collaborative networks. The result is a flatter, more global and multi-centred model.

By 2030 the success of today's advanced economy multinationals will no longer rest on their brand names and presence, but on a true multinational understanding of business practices in different areas. Whether they are a federation of business or family businesses, to survive in 2030 they will need to be culturally adaptable. Pacek describes this in terms of executive talent, saying that large businesses will need to be like 'two-headed monsters', with separate leaders for advanced and emerging markets.

The fluid, flexible federations of businesses of the future are cultural chameleons: they have adaptability in their DNA. Different regions have different ways of doing business and cultural understanding and alignment will be a success factor vital for the sustainable growth of federations of businesses consisting of more and closer collaborations of small, specialised businesses. Charvet explains by comparing business models in Asia Pacific with those typical of multinationals from advanced economies: 'In China and Japan there are different business structures which look more like a partnership. So the entities work together based on an agreement that specifies what each business is going to provide. From a UK legal perspective it looks like a partnership, but with groups of companies that all need to bring together component parts. However, there is a much tighter bond in these business structures than in a mere outsourcing arrangement. There's a similar ethos, a similar approach in how each business is going to do things. From a developed world perspective, we would see it as a business pulling together a lot of outsourced activities and then managing that for us. So it is quite an interesting, different approach. It also seems to involve a high degree of cultural adhesion and similarity, but also a high degree of trust.'

This is not a barrier for family businesses. Their cultural similarity explains the strength and extraordinary longevity of the family business model which our panellists expect will continue to be a dominant feature in the corporate landscape of 2030. Ward describes his observations on family-run Indian companies: 'They have benefitted from this consistency, the common values, the element of yes, OK we all make money because we are all a part of the same business.'

Goyder agrees: 'Family business has always been incredibly important and I don't think that will change.'

Dilnot adds: 'There are some really big businesses – and they are still effectively family firms. Not little businesses, but massive businesses, financial services businesses, development companies… and my impression is that these people have been, and will continue to be, extraordinarily successful. In Hong Kong, for example, the Hysan Development Company is still a large family business, as is the Kowloon Motor Bus Company.'

A CHANGING FORM OF COLLABORATION

In all types of businesses, parties will become tied to others in closer collaborative agreements, with more joint venture-type agreements underpinning tighter contractual relationships than in simple outsourcing, yet aligned culturally in the same direction. As Charvet says: 'We may see a development of more interesting joint venture-type arrangements. So you would have a situation where two large companies see a market opportunity, but neither of them wants to take the complete risk. Or one of them brings certain skills to the project and another brings other capabilities. We may see more of that type of activity happening, which could be a very interesting development.'

Charvet cites the Smart car as an example: 'Smart car is made up of components bought together under a very loose joint venture arrangement to create a little car and the components of that car come from all over the world. …It is Mercedes that badges it, but if you ask them about it, they would describe it as formed in a joint venture structure.'

This is a good example of how de-conglomeration and specialisation is expected to continue in new ways for today's advanced economy multinationals. But, cautions Peiperl, specialisation will not mean exclusivity – there will be multiple clusters in one speciality and multiple specialities in one region. 'The portability of people and information, especially information and money, means that while you will have clustering, there's relatively little exclusivity. There are relatively few barriers to most of that clustering and typically there will be multiple clusters in one speciality and there will be multiple specialities in one region.'

Deconglomeration entails creating businesses in which even the basic functions that used to be housed under one roof are separated. A business may farm out its accounting, its cash management, its production, its marketing, or even sub-functions of these, in order to achieve efficiencies. Deconglomeration will evolve into a far more intuitive form of outsourcing.

This will be most evident from changing outsourcing locations. Businesses will shift elements of the value chain to the regions of lowest-cost labour for reasons of cost, scale and quality. And as Ward describes, diversifying outsourcing locations would have the added advantage of increasing the safety net for businesses: 'At a really basic level, you have to look at the practicalities. What happens when the Himalayan glaciers all melt and the water supply is seriously prejudiced in India? There are some big what-ifs that suggest if you are going to engage in outsourcing, you need to do it in a multidimensional way. Eastern Europe, I think that is underrated and that is quite interesting. Also South America and the Philippines. After 30 years of experience in outsourcing, I suspect India is the best place in the world to have as your mainstay, but you do need to get around the globe. If you do that, you can also go for 24 hours, seven days a week.' Hobday describes this as a form of outsourcing arbitrage: 'People are outsourcing to new places, Eastern Europe, for example. You could call it a kind of arbitrage. However, clients are now seeing benefits in quality and productivity too, particularly in India.'

The ability to manage these more loosely connected business arrangements will again require strong cultural fluency. Yet to ameliorate this potential barrier to forging business connections, we are also likely to see businesses outsource to regions that are culturally similar. Our panellists cited this for the reason behind a heightened Western interest in Central and Eastern Europe as an outsourcing destination.

Changes in the speed and scale of outsourcing, as well as the location of outsourcing, are also likely by 2030. Some panellists argue that outsourcing will continue, albeit at a slower pace than we have seen in the past few years. This is because, as Estrin describes, many businesses have already outsourced the obvious functions: 'All the obvious things are already done but as the difference in costs continues to rise in the US or the UK, as real wages rise, you know a different category of job is bought into threat so to speak, so this process continues in my view, but my guess is at a somewhat slower rate.'

Yet in some sectors higher-value work will be outsourced more heavily – for example, accountancy and other professional services – and some panellists argue that public sector jobs may also follow the same route. As Hobday explains: 'I think the paradigm of outsourcing low-value, low-skill work will be increasingly challenged. For example, in application management services, I am seeing high-value architecture and development services being offshored to India, with the prospect of end-to-end delivery of IT services coming from Pune or Bangalore.'

Hypothesis New forms of governance and assurance will emerge to manage more fluid, collaborative business models. Barriers between the public sector and corporates will begin to dissolve as they collaborate further to provide products and services.

GOVERNANCE AND ASSURANCE

Western governance models have already changed considerably in the past 20 years – shareholders are no longer small individuals but big institutions and companies. Charvet notes this change on the London Stock Exchange: 'Share capital-based companies, having traditionally had individual investors, today are run by very large businesses. The investors in companies listed on the FTSE, for example, are very large entities. That has been the major change that we saw in the latter part of the 20th century.'

There is general agreement that it is becoming increasingly difficult to govern small businesses, family businesses and multinationals, because they are all becoming more global. Not only will they share similar governance and assurance challenges, they will face other issues specific to their business structures.

Companies that are on the cusp of being 'professionalised' are getting bigger and becoming truly international. Global businesses are by no means a new development, yet there may be shortcomings in understanding different cultural business arrangements, agreements and structures. Without first confronting this challenge of understanding such arrangements, how can they be governed? In particular, there is a tendency in the West to 'collapse down dimensions of difference', as Dilnot says.

It could involve more risk if new models are allowed to spring up without procedures in place to ensure proper governance. In a world dominated by complex connections, where small businesses establish loose technological affiliations, distributed supply chains and a network of shopkeepers, how is it possible to govern and regulate graduates who set up businesses from their student accommodation?

When people come together to start doing business in this world of shopkeepers, there arises the question of how to keep track of who has an arrangement with whom. This is a very difficult regulatory issue unless the participants can self-govern and report. Loughlin Hickey, global head of tax at KPMG warns: 'When you have a distributed supply chain, which you can do through technology, you can have remote working and encourage entrepreneurship. This is a model that can be difficult to govern. You then go to the next stage when people come together to start a business. How do you govern that? Well, that is a kind of self-governance. You then get to the level where you start to have a problem – companies get so big they would benefit from assistance, but they do not seek outside help as they have no tradition of formal governance.'

The challenges do not disappear as companies grow. Larger businesses have lots of assets to move around between their various businesses and this process can be very complicated and hard to map. Companies may have channels of communication, but they do not necessarily have the cultures of internal and external scrutiny to use them. Cultural behavioural responsibility needs to be instilled, together with permission to challenge all aspects of CSR and not just formal procedures. Otherwise, there is a danger of sleepwalking accountability and not proactive responsibility. As Goyder comments: 'It seems to me that big, old organisations are where it goes wrong. People deviating from the right path, I would argue, are more easily picked up when crossing organisational boundaries than those within a mega corporate organisation. I think that the key mistake we make is when we think that there is only one sort of dimension to governance – "we have elected these people therefore we can trust them". The task now is to find effective ways for spotting rogue behaviours inside these giant organisations – what we call the behavioural audit trail.'

This can be especially hard in family businesses, where the stakeholders are not clear or always formalised. They usually do not ask for external help because there is no one – neither shareholders nor banks, if the companies are cash generators and need only transaction banking, not working capital – to make them self-govern. As Hickey describes it: 'The identity of the stakeholders you need to look after in family businesses is not always clear. You can have big family companies who are not looking for outside shareholders and are not looking to banks. The question then is how do you get them to formalise self-governance to prepare themselves for difficult decisions, in particular, around the role of the company in society and generational change.'

The panel made clear the necessity for governance and assurance to evolve symbiotically with changing business models and more complex and intricate working arrangements.

In the case of small businesses:

- their size will be self-limiting if they do not adhere to governance and assurance policies. Some will reach a point where, to remain competitive, they will have to join the supply chains of larger businesses, either linking up or being part of the chain. 'As long as any business is part of a network, that will impose a degree of governance,' as Chin Kwai Fatt says
- their employees will also require them to do the right thing. This extends to governance and assurance procedures. Companies can no longer pay lip service to things like CSR because it will be an important factor in attracting and retaining talent
- there will also come a point where these businesses have to make an acquisition, or seek external investment, and these steps can present a massive hurdle. The move to engage with professional advisers in the due diligence procedures prior to listing can be traumatic because the company will have to rely upon outsiders. Nor will things become easier in the public arena, where relying on outsiders becomes the status quo.

For multinationals and large family businesses:

- there is a danger of just falling, or even just drifting, into 'crisis' mode, as happened in 2008 and 2009
- there will now be more accountability to their shareholders, the public and the regulators.

TOWARDS A SYSTEM OF GREATER SELF-GOVERNANCE AND RESPONSIBILITY

Our panellists saw the solution as increasing self-governance by creating a culture where the responsibility of 'doing the right thing' is embedded within businesspeople and organisations. In this way, governance can evolve as businesses evolve.

This would address the challenges of governing and assuring those businesses 'under the radar' – small enough to be at a level at which formal procedures have massive cost and resource implications.

The answer is small, light-touch and straightforward regulation. Our panellists see the need for an increased sense of personal responsibility and governance through principles-based regulation. They argue that governments should establish standards – clear behavioural benchmarks for the majority – and intervene when there is a need. They will also have more resources to think about and use to address systemic risks at both sectoral and national level.

'If you have a rules-based system, the rule maker takes responsibility for having the correct rules. Therefore a culture grows where anything that is not in the rules is fair game. I think that's a really dangerous place to go,' Hickey warns.

The idea of ensuring that the thinking is not devolved is important, and one our panellists agreed is more likely to take place within a principles-based framework. As Goyder says: 'In organisations you need not only the formal accountability of who has been elected, but you also need a kind of behavioural challenge. You need organisations and cultures to be assured by the knowledge that anybody can say to anybody, "I think that is a silly idea", or "Why on earth are we doing this?" And organisations need to be more transparent so that the public can say "Why on earth are you doing that?" But there is also a need to be careful that regulation does not just favour the large and burden the small.

This is part of a big debate currently, and there will be a tendency for a while for it to be enforced in the aftermath of the failure in some part of the regulators to prevent banks from accumulating such high levels of toxic assets. So governments will be forced to step in and micro-manage because they do not want to be seen to have failed. And there is certainly a need for more innovation around how to formally govern and assure these more loose confederations of small businesses connected through remote working.

Some panellists also comment that enforcement should not be too severe. But to remain in businesses in 2030, players will have to plan for it. As Hickey says: 'The tipping point of getting it wrong is just so frightening that people would over-regulate to eliminate the risks or they would stop doing business as the risks outweigh the rewards.'

This could be accomplished by reform of the tax system. Hickey suggests an innovative and interesting approach: 'The ideal business model for me would involve businesses registering with the government as soon as they are set up. The government would do two things: one, enrol the business into the tax system, and two, offer to take on the basic business paperwork.'

'Effectively, the business would run an outsource model with the government by giving complete access to business records. The government would be heavily involved in the process and take the responsibility for getting it right. Whether this model will take off, I'm not sure, but the more information that gets reported to government agencies, the more logical it becomes. In some ways, it is the next logical step from where some tax authorities are moving – which is the pre-population of tax returns based on information already held. The advantage is that it enrols taxpayers into the tax system from an early stage and keeps them compliant and safe from penalties for non-compliance. The greater the relationship between government, businesses and citizens, the more likely you are to see trust being built up. This will be an asset when a business gets big enough to take on its own accounting and reporting responsibilities.'

This would be a significant step change, positioning the public sector almost as a provider of accountancy services for small traders, offering assurance for credit purposes and fraud. The one-stop-shop facility would be attractive for small businesses, enabling them to register more easily. A single regulator – offering income tax, sales tax, company registration and IP – would be operating, effectively, as an agent for general business affairs.

This form of encouraging productive business and, particularly, trade with consumption-based tax models (most usually expressed in Value Added Tax) – creates an audit trail, albeit with bureaucratic inputting and outputting.

Hobday suggests another development, that of an auditor of supply chains: 'Maybe there is a role that says, I am the accountant of this supply chain, not the accountant to the organisation. It might be quite interesting.'

SHIFTING SANDS BETWEEN THE PUBLIC AND PRIVATE SECTORS – THE ROLE OF THE STATE IN 2030

Our panellists unanimously agreed that the pressures on governments today will continue to intensify, this will occur as:

- concurrent with the rise of absolute wealth in regions around the world, the demand for good-quality social services will increase. There will be added pressure in areas where the state has traditionally provided health and social care
- population is likely to rise, particularly in the developing regions. There will be spectacular growth in some regions, as infant mortality drops
- in some places there are likely to be severe demographic imbalances, with ageing populations in the developed world and a youth-bulge in other areas
- continued rises in longevity will place additional pressure on welfare systems
- the ever present expectation will fall on the public sector to continue providing good-quality services without increasing taxes. This will also require improved delivery of services.

At the crux of this hardship is that the public sector in different regions will have to do more with less. The state will reach a tipping point. This will require a rethink of how the public sector operates, and how the public and private sectors work together to overcome the pressures on demand.

Our panellists have extremely divergent views on the likely future role of the public sector and there are two clear schools of thought emerging. This is based upon the balance between the three different social responsibilities that our panellists see that governments possess:

- providing the right environment for businesses
- collaborating more closely with the private sector as a delivery partner
- regulating and governing the private sector.

Some panellists see the government's role in 2030 as primarily being a combination of the first two activities, making the public sector a chief facilitator of business. Others see it as a combination of the second two, positioning the public sector as a corporate policeman.

Some panellists argue that there will be a blurring of the lines between ownership, function and delivery, leading to a convergence of all three roles of government. The closest examples we have of this can be seen in the phenomenal growth of sovereign wealth funds in some regions, and in others, the increasing number of public–private partnerships. Both of these encourage the private sector to self-govern and the public sector to focus more closely on measuring its delivery to customers. The result is to merge their commercial and social responsibilities in a cohesive approach that suggests the future development of more fluid approaches.

However, this more cohesive approach involves providing the right environment – including regulation – and working together creatively to deliver services. This role is about working together to provide the infrastructure facilitator to create the appropriate atmosphere for business to develop and to promote business-friendly, pro-growth initiatives. This role may also include providing investment in the appropriate areas to stimulate corporate growth, to use tax incentives and to provide a suitable regulatory environment.

As Chin Kwai Fatt comments: 'I see the public sector as the chief facilitator of business in the future. By that I mean they could provide the infrastructure to build the ports and the roads, and then the private sector could use these to gain an advantage in business. I think that the public sector would, in 2030, play a more active role in partnering with businesses to facilitate development or growth by providing the right environment and the right infrastructure. If you look at most of the emerging markets, the reason why they develop fast, the reason why Brazil, Russia, India and China are where they are today, is because the government has been active in what I call business-friendly, pro-growth initiatives, through either investments, incentives, infrastructure or through investment in education.'

The emphasis should be on finding ways to increase creative ways of working with the private sector – there will be long-term cooperation including much more government involvement in business – but not to the extent of nationalisation, which is the crisis mode in the West.

Hickey says: 'Business needs to have a responsibility for good governance, and governments need responsibility for allowing good business. If you think about countries like China, there is an ethos of government intervention to ensure that activities in the corporate world are done at the right pace for the right purpose. There is an implied contract in China between the people and the government in terms of freedom to operate within an agreed framework. While that may be particular to China, in my view governments should become more business-like and businesses should take on certain corporate social responsibilities. I think that this is where we will end up.'

The need is to make governments more aware and responsive in their dealings with business, whether through collaborations such as public private partnerships (PPPs) or direct state intervention in business regulation. They should essentially be working on similar things because their activities are not wholly different and governments will have insight into what is going on.

The medium-term changes seen in the UK public sector are indicative of this trend of partnership in delivery. By January 2008 there were over 500 operational PPP projects with a total capital value of

FIGURE 4: SOCIAL RESPONSIBILITIES OF GOVERNMENT

FIGURE 5: GOVERNMENT AS THE CHIEF FACILITATOR OF BUSINESS

The increasingly overlapping roles of the public and private sector

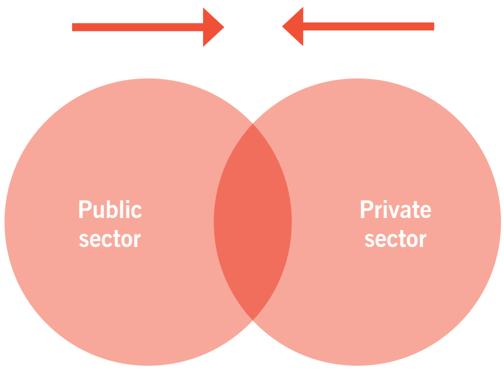
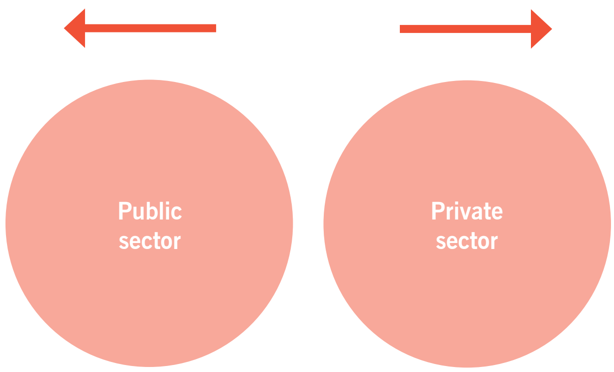


FIGURE 6: GOVERNMENT AS THE CORPORATE POLICEMAN

Increasing divergence in the roles of the public and private sectors



around £44bn and a further number in the pipeline. Their scope was also widened, with a higher proportion used to build new schools and hospitals.

A second scenario is noted by other panellists, who expect the government to play a more active role as a referee, because ultimately the government can be held accountable. Estrany y Gendre says: 'You need the government as a regulator and I think that voters have realised this. And so we will see in decades to come, governments playing a more active role as a referee. Because at the end of the day, the government is held responsible by the voters if everything goes wrong. So I think that there will be more involvement, and I don't expect the barriers between these two sectors to disappear. On the contrary.'

It is argued that governments and businesses are essentially different and often mutually hostile species. The public and private sectors will always have to work quite separately and it is important for this to remain the case to reflect their fundamentally different aims and purposes. As Estrin says: 'The private sector is driven fundamentally by profit. The state sector... let's say by service provision: they have particular, specifically set objectives. And I think it is moderately hard for these things to work in tandem. I think that public–private partnerships that people were very excited about sort of failed for very predictable reasons.'

However, our panellists argue that closer public and private partnerships may be more likely in some places – and that this could stimulate growth. As Peiperl says: 'Look at the Middle East, possibly China, Nigeria, with regard to the national oil companies, places where the state has made a clear statement, a clear investment, or in some cases, a kind of nationalisation. They are saying yes, this is for the benefit of the country; it's not really about private enterprise and then in some cases they go and play it like a private enterprise. In these countries they do have an advantage, of course, because they have the law on their side, unlike Western countries or markets where the corporate players are not connected to a government.'

In this view, government intervention is more of a short-term need, providing a safe harbour in a storm. But there will be more conflict between them as there will be more political tendencies towards protectionism and isolationism. An important challenge will be unwinding the government intervention that was critical to stabilising the economy in the initial stages of the recent financial crisis.

Hypothesis A multipolar world of super-specialised regions will develop, spurred by information technology.

> **"Wealth either comes from the ground or from people's brains."**
>
> MALCOLM WARD, LEADERSHIP TEAM, GRANT THORNTON UK

FIVE FOUNDATIONS FOR REGIONAL GROWTH AND SUCCESS IN 2030

Panellists revealed five interrelated elements as precursors for regional growth on the road to 2030. These do not exhaustively represent the keys to success. And not all these elements need to be present for growth – each country has its own unique blend. But those countries that can leverage their strength in all these elements will, the panel believe, establish a strong foundation and recipe for success in the coming decades.

The main business drivers have an educational and cultural foundation. Higher consumption levels include a significant appetite for formal education, particularly in emerging markets. Entrepreneurs will continue to seek countries with a stable legal and fiscal framework in which to base their businesses. They will also take a regional approach, choosing a country that gives them easy access to neighbouring markets so that trade can support domestic growth.

1 Stability as the foundation

First comes political and economic stability. The panel was broadly in agreement in citing a stable and settled environment as a core prerequisite of growth. Ward asserts that its absence is the key social constraint to growth. Charvet says: 'The key factor determining where power will shift to is those countries that have a reasonably settled society.' Estrany y Gendre adds: 'If you don't have a stable environment, it's very hard to develop new corporations.'

Stability is essential to allow both entrepreneurs and businesses to take advantage of markets and resources, and to develop a strong educational infrastructure.

2 Tapping into a domestic market

'Those with a large domestic market, as in the case of the BRICs, have an obvious advantage,' says Estrany y Gendre.

Access to a large domestic market fuels growth. This does not have to be the country's own, but countries can take advantage of those close to their borders. In the case of Latin America, the benefits of being close to 360 million consumers in the US are clear. Still, a small domestic market is not an insurmountable obstacle. There are examples of companies in certain regions that have been creative about strategically tailoring their products to meet the needs of citizens in countries with large domestic markets.

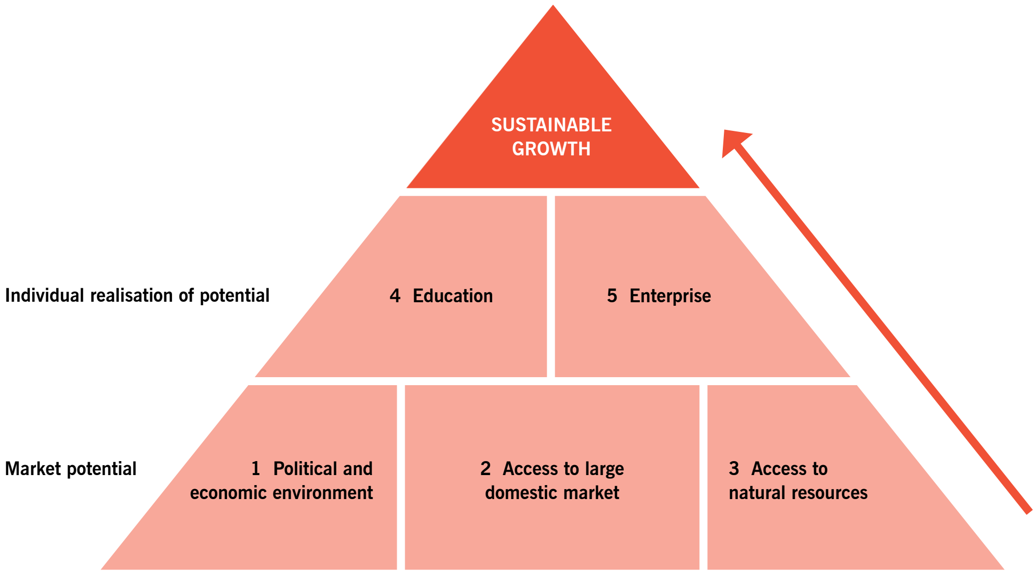
3 Access to natural resources

There continue to be clear benefits of being able to use and sell commodities, as long as countries have the infrastructure and political will. The Middle East and parts of Latin America are obvious examples. Yet being able to extract and have a stake in the resources of another region could also help countries build their resource base. Here, there is a danger of this being taken too far and from regions suffering the 'resource curse'.

'There is the phenomenon of the resource curse. The countries which are dependent on natural resources have traditionally found it very hard to diversify away from them. If you've got a lot of resources you run a balance of payments surplus and that forces up your exchange rate which makes all other economic activities non-competitive,' says Estrin.

Countries which have managed to diversify, such as Brazil, have succeeded with value-add by providing prepared meat in sealed packages and other food exports that are turning Brazil into China's bread basket.

FIGURE 7: THE FIVE FOUNDATIONS FOR GROWTH



4 Education as growth enabler

'There are parts of the world that really value education. Where people work very, very hard to seize the kinds of opportunities that education can deliver... and in these parts of the world we could see something pretty impressive,' says Dilnot

The panel highlighted the benefits of a well-educated population as a strong enabler of growth. Those countries that value education and invest in it should reap the rewards in 2030. However, education needs to be focused on producing a new generation of globalists – those with a well-rounded perspective on the world, different cultures and how the political and corporate environment works in each. These globalists will be the leaders of tomorrow. And to cultivate their global perspective, higher education institutions need to become universities of the world. Currently, the highest-ranked universities are in the West. Some panellists assert that unless the West adapts its institutions to become true universities of the world, the globalists of the next generation will come from the emerging economies.

5 Valuing the entrepreneur

An entrepreneurial spirit was identified as being of crucial importance by the panel. Economic growth fostered by SMEs will be significant in 2030. Being able to harness this spirit will be essential. There is an increasing sense that most countries are able to offer and nurture this traditionally strong area for the developed regions. Intellectual property figures make it clear where most innovation, research and development is coming from – the originators of today's more developed economies – yet it is clear that by 2030, the game will be much more open. And this is inextricably linked to education.

Our panel's vision of regional characteristics in 2030

"There is strong reason to believe that there will be parts of South America that emerge as true global players in 2030. Two reasons why. These countries have the North American market on their doorstep. And in some cases the countries have got quite well developed educational systems. Educational systems will be large enablers of future growth."

MARK GOYDER
FOUNDER DIRECTOR, TOMORROW'S COMPANY

"The US will remain known as a good incubator of ideas, of creativity, and of multiculturalism ... a fast-moving, trend-setting place that others continue to look to for innovation and future directions."

PROFESSOR MAURY PEIPERL
PROFESSOR OF LEADERSHIP AND STRATEGIC CHANGE, AND CHAIRMAN, BUSINESS ADVISORY COUNCIL, IMD BUSINESS SCHOOL, SWITZERLAND

"In the coming decades I believe that the future economic poles will lie in South East Asia. Areas like Malaysia and Singapore in addition to India and China."

ABBAS SHOJAEI
FOUNDING PARTNER, SALEHANDISHAN & CO (AUDIT FIRM), IRAN

"I see a cluster of countries in ASEAN – Indonesia, Malaysia, Vietnam, Thailand and Singapore to name a few – as an important emerging territory that would gain traction in the world of business. One reason why: ASEAN business models are oriented on a long-term view of business. They invest for the future."

CHIN KWAI FATT
MANAGING DIRECTOR, PRICEWATERHOUSECOOPERS, MALAYSIA

"I am very bullish on Central and Eastern Europe in the medium and long-term. It should not be treated as a second-rate emerging market."

NENAD PACEK
PRESIDENT, GLOBAL SUCCESS ADVISORS

"The outside world does not fully understand nor have a good image of Africa ... and we need to work on perceptions. However, economic progress, good governance and transparency will improve international perception. Take Uganda, which has made a lot of progress in the past 20 years and has a B+ rating from Standard and Poor's. The education sector has been liberalised and opened up and is producing a large number of graduates. Given strong skills and training, they will be able to compete in the world market."

JAPHETH KATTO
CEO, UGANDAN CAPITAL MARKETS AUTHORITY

"To have a speciality news programme centred on the Middle East is an indication of how much things have changed. A fourth time zone, a fourth financial centre and a weekly television programme ... these all indicate how fast the world is changing and this gravitational pull to the East."

JOHN DEFTERIOS
CORRESPONDENT, CNN BUSINESS NEWS AND PRESENTER/EDITOR OF *MARKETPLACE MIDDLE EAST*

"I think increasingly in 20-years' time, we won't be talking about the UK's economic prospects in isolation. We will see it very much more as a part of Europe. The European bloc will become stronger in its own right."

MARK GOYDER
FOUNDER DIRECTOR,
TOMORROW'S COMPANY

"The transformation in North Africa over the past decade has been phenomenal, and driven by major reforms, generational leadership and efforts to employ their populations and define their unique selling points. And natural resource-based countries: Zambia, Sudan, Ghana, Nigeria for example, are going to continue to attract capital."

JOHN DEFTERIOS
CORRESPONDENT, CNN BUSINESS NEWS AND PRESENTER/EDITOR OF *MARKETPLACE MIDDLE EAST*

About the report

This report was developed by ACCA in collaboration with the strategic research and consulting group Lighthouse Global (www.lighthouseglobal.eu.com). The content was created from a combination of primary and secondary data sources, and a series of conversations with the following independent business leaders, economists, academics and commentators from around the world:

- Verena Charvet, managing lawyer, Invesco, former legal counsel at Barclays Wealth, former principal at Barclays Global Investors
- John Defterios, correspondent, CNN Business News and presenter/editor of *Marketplace Middle East*
- Andrew Dilnot, principal of St Hugh's College, Oxford University, economist, broadcaster, former director of the Institute for Fiscal Studies
- Antonio Estrany y Gendre, chairman, Axial Analytics (financial analysis outsourcing company), former member of HSBC's executive committees (Argentina and Americas region)
- Professor Saul Estrin, professor of management and head of the department of management, The London School of Economics and Political Science
- Mark Goyder, founder director, Tomorrow's Company
- Tony Hegarty, chief financial management officer, World Bank
- Loughlin Hickey, global head of tax, KPMG
- Mike Hobday, partner, IBM. Former CEO of Atos Consulting
- Japheth Katto, CEO, Ugandan Capital Markets Authority
- Chin Kwai Fatt, managing director, PricewaterhouseCoopers Malaysia
- Nenad Pacek, president, Global Success Advisors
- Professor Maury Peiperl, professor of leadership and strategic change and chairman, business advisory council, IMD Business School, Switzerland
- Abbas Shojaei, founding partner, Salehandishan & Co (audit firm), Iran
- Malcolm Ward, leadership team, Grant Thornton UK

For more on this report and the panel of experts who contributed to it, please go to: **www.accaglobal.com/af**

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