The Future of the Global Market System

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ICC CEO FORUM
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Harvard Business School celebrated its Centennial

• HBS was founded because business leaders recognized the emergence of the managerial class. They thought it was important that management be studied as a profession so that this important group in society could be properly trained. 100 years seemed an appropriate time to:

• **ask business leaders what they saw as the long term problems facing the global market system.**

**THEIR MOST IMPORTANT CONCERN WAS ABOUT GROWING INEQUALITY IN THE WORLD AND THE EFFECT THIS CAN HAVE ON POLITICAL AND ECONOMIC STABILITY.**
Returns to skilled workers are likely to rise faster than for unskilled workers in the global economy.

*Ratio of skilled wages relative to unskilled wages*

Source: World Bank staff calculations.
People flee where the market doesn’t work. The increase in migrants – in particular toward high-income countries is politically explosive.

**Graph: Millions of migrants vs. % host population**

- **Source:** World Bank 2006a; World Bank 2006b; staff calculations.

**Note:** Bars are measured on the left axis; lines are measured on the right axis.
The bottom line: In 2030 most workers will be in developing countries and unskilled

*Growth in the global labor force 2001-2030*

<table>
<thead>
<tr>
<th>World Region</th>
<th>2001</th>
<th>2030</th>
<th>Growth (%) per year</th>
<th>2001</th>
<th>2030</th>
<th>Growth (%) per year</th>
<th>2001</th>
<th>2030</th>
<th>Growth (%) per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Total</td>
<td>3,077</td>
<td>4,144</td>
<td>1.03</td>
<td>2,674</td>
<td>3,545</td>
<td>0.98</td>
<td>403</td>
<td>598</td>
<td>1.37</td>
</tr>
<tr>
<td>High-income countries</td>
<td>481</td>
<td>459</td>
<td>-0.16</td>
<td>327</td>
<td>276</td>
<td>-0.58</td>
<td>154</td>
<td>183</td>
<td>0.60</td>
</tr>
<tr>
<td>Developing countries</td>
<td>2,596</td>
<td>3,684</td>
<td>1.21</td>
<td>2,347</td>
<td>3,269</td>
<td>1.15</td>
<td>219</td>
<td>415</td>
<td>1.78</td>
</tr>
<tr>
<td>East Asia &amp; the Pacific</td>
<td>1,060</td>
<td>1,279</td>
<td>0.65</td>
<td>988</td>
<td>1,163</td>
<td>0.56</td>
<td>71</td>
<td>117</td>
<td>1.70</td>
</tr>
<tr>
<td>China</td>
<td>773</td>
<td>870</td>
<td>0.41</td>
<td>740</td>
<td>816</td>
<td>0.34</td>
<td>33</td>
<td>54</td>
<td>1.72</td>
</tr>
<tr>
<td>South Asia</td>
<td>632</td>
<td>1,005</td>
<td>1.62</td>
<td>589</td>
<td>925</td>
<td>1.56</td>
<td>42</td>
<td>81</td>
<td>2.27</td>
</tr>
<tr>
<td>India</td>
<td>473</td>
<td>712</td>
<td>1.42</td>
<td>441</td>
<td>653</td>
<td>1.36</td>
<td>32</td>
<td>59</td>
<td>2.10</td>
</tr>
<tr>
<td>Europe &amp; Central Asia</td>
<td>236</td>
<td>233</td>
<td>-0.04</td>
<td>195</td>
<td>192</td>
<td>-0.06</td>
<td>41</td>
<td>41</td>
<td>0.02</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>119</td>
<td>205</td>
<td>1.88</td>
<td>87</td>
<td>144</td>
<td>1.74</td>
<td>32</td>
<td>61</td>
<td>2.25</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>313</td>
<td>617</td>
<td>2.36</td>
<td>293</td>
<td>573</td>
<td>2.33</td>
<td>20</td>
<td>44</td>
<td>2.74</td>
</tr>
<tr>
<td>Latin America &amp; the Caribbean</td>
<td>236</td>
<td>345</td>
<td>1.32</td>
<td>194</td>
<td>273</td>
<td>1.19</td>
<td>42</td>
<td>72</td>
<td>1.85</td>
</tr>
</tbody>
</table>

Business leaders mentioned other challenges

- Energy prices are volatile
- Climate change will have a serious impact
- Water is increasingly scarce
- The financial system has proved vulnerable to major shocks
- Corruption
- Inadequate governments
Global Warming is Increasingly a Crisis

Greenhouse Gases and Global Warming

Sources: NOAA, Oak Ridge National Lab, ASL Assoc, EDGAR-HYDE, Boston U.
Water Availability is Expected to be Very Uneven Causing Regional Crises


Business Leaders’ Concerns

Management of firms, countries and international institutions will not deal well with

• Income inequality
• Migration
• Protectionism
• Environment
• Instability in the financial system
• Corruption

Each of these can disrupt free trade and free markets
What does this mean for business?

We heard 4 views

1. Business as an advocate of government action
2. Business as a partner in government action
3. Business as usual
4. Business as an entrepreneurial source of solutions

HBS is increasingly impressed by the power of the fourth approach.

One example is a project by China Mobile to enter poor communities with a project profitable for everyone involved.
Example: China Mobile’s Rural Strategy

<table>
<thead>
<tr>
<th>China’s countryside</th>
<th>The distribution system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counties (2,900)</td>
<td>Flagship stores</td>
</tr>
<tr>
<td>Townships (41,000)</td>
<td>Flagship stores – “one stores per township” – local staff</td>
</tr>
<tr>
<td>• Distribution channels</td>
<td></td>
</tr>
<tr>
<td>• Information centers</td>
<td></td>
</tr>
<tr>
<td>Villages (610,000)</td>
<td></td>
</tr>
<tr>
<td>• Sales agents (&gt;1 million)</td>
<td>“One sales agent per village” local staff</td>
</tr>
<tr>
<td>Many agents are village store keepers with fixed location, easy to find.</td>
<td></td>
</tr>
<tr>
<td>• Information collectors</td>
<td>Low cost</td>
</tr>
<tr>
<td>Rural Customers 750,000,000</td>
<td>Income to local agents</td>
</tr>
<tr>
<td></td>
<td>Sustainable</td>
</tr>
</tbody>
</table>
Now cross-selling fee-based agricultural information—RIN (Rural Information Network)—to over 60 million farmers

• First and largest integrated channel in rural China, over 98% coverage
• Primary channel for selling cell phones and minutes to farmers
• Cross-selling value added services such as RIN to over 60 million farmers
• At very low fee per month, about ¥2 (30 cents US)
  • Interactive Information

The Rural Information Network product is profitable
HBS research shows a pattern

Large Corporations provide
• Information
• Practical education – “how to”
• Credit
• Tools
• Disintermediation – removes barriers to mobility.
What can we conclude?

• The BIG IDEA - These business strategies focus on inclusion. They bring the unskilled and unserved into the market system.

• What role for institutions like the ICC?

• What role for government?
The basic challenge

To preserve our market system for the future, we – as business leaders – need to develop ways to include the vast populations that are not served by the market system.

In today’s world, the legitimacy of our system in the eyes of those who are excluded depends on it.

The stability of our system depends on it. We must avoid failed states.

We in ICC all need to think hard about how we can use our business skills so that the market system serves all parts of the globe.