Council Perspective

From Globalization to Islandization

January 2016

What will the next global economic order look like?
Executive Summary

- Globalization appears to be on a hiatus. It peaked in 2007, and the 2008–2009 global financial crisis marked the transition to a new, prolonged phase of reduced growth in both the global economy and the level of international economic integration. The key question now is whether there will be a resumption of growth in the cross-border movement of goods, services, capital, and people, or whether there will be a fundamental shift away from the prerecession trajectory of accelerating globalization.

- Traditional key indicators of globalization—global trade in goods and international investment flows—remain below their 2007–2008 peaks. While trade in services and international tourism have emerged as faster-growing areas of globalization, they contribute significantly less to international economic integration and global economic expansion. Persistent macroeconomic uncertainty and reduced investor confidence are both important reasons for the current lower levels of foreign direct investment (FDI).

- As the world steps back from rapid globalization, the rules of the road have become more complicated for multinational companies—not only as a result of lower growth but also because of the return of geopolitics and the related resurgence of nationalism and protectionist policies. Simultaneously, increased prosperity in emerging markets and the rise of the knowledge economy are fundamentally shifting the contours of the global economy.

- This global hiatus has persisted for longer than many economists and business leaders had expected, and it may continue for the simple reason that the economic policies and growth trajectories of major economies continue to diverge. At the same time, governments seem less interested than before in expanding the formal frameworks for cross-border flows.

- Eventually the current pause will end, though, and a new global economic order will emerge. The divergent forces at work make it very uncertain what the next phase of the global economic order will be. In this assessment, we explore four plausible and very different potential futures: Globalization 3.0, Polarization, Islandization, and Commonization.

- Each of these potential futures signifies vastly different operating environments for multinational corporations—with Commonization the most inherently disruptive for current business strategies. No matter which future emerges, however, organizational foresight and agility will be critical in determining which firms are winners—and losers—in the transformed global operating environment.
Introduction

Since the 2008–2009 global financial crisis, the world economy has been in a period of intermission. The past seven years have been characterized by volatility and unpredictability that is evident to business leaders and casual observers alike. From the Arab Spring to the market reaction when the Federal Reserve tapered off its quantitative easing program, and from the Russia-Ukraine crisis to China’s stock market jitters, the global operating environment is in seemingly constant flux. The global economy may remain on pause for some years to come, or it may soon begin to transition into a new phase. So business leaders must not only navigate the current global economic period successfully, but they also must be prepared for whatever new order may emerge. The A.T. Kearney Global Business Policy Council (GBPC) believes that what comes next is more uncertain than at any other time in the quarter-century in which we have been studying and analyzing the global operating environment.

What comes next for the global economy is more uncertain than it has been at any other time in the past quarter of a century.

The period beginning in 2001 and leading up to the 2008–2009 global financial crisis was Globalization 2.0, in which the cross-border movements of goods, services, capital, and people seemed to be on an ever-upward trajectory. So pervasive was the assumption that globalization would continue forever that the word fell out of common use. The major changes had taken place already during the 1989–2000 period of Globalization 1.0 and the 2001–2008 period of Globalization 2.0. There seemed to be a gradual glide slope ad infinitum to continued increases in global flows. In fact, in 2007 the GBPC discontinued publication of its annual Globalization Index, which for more than a decade had tracked the progress of increased financial, trade, and other types of global connectivity. Simply put, globalization had graduated from a carefully studied set of trends to an assumed constant—a relentless engine that was shrinking the world, with upside for businesses everywhere. The elimination of “globalization” from our business vocabulary was simply a testament to its incredible success.

Since the global financial crisis receded, there has been an implicit assumption among business leaders and economic analysts that globalization would return in full force. However, it has become clear that all is not what it once was when it comes to the global economy. Several recent articles led us to conduct our own analysis on whether we had hit “peak globalization” in 2007, and to what extent globalization is now “unraveling” or “disintegrating.” We quickly concluded that something altogether different had come to characterize the global economy since 2008, so we set out to examine how exactly it is affecting the global business environment today and how it may evolve in the future.

Having reviewed the available data, we find that globalization is on pause for very important, new, and provocative reasons. Some seven years after the 2008–2009 global financial crisis,

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key metrics of global interconnectivity have yet to return to precrisis levels. This can no longer be attributed to the financial crisis and its immediate aftermath. Rather, the global economy has entered a new phase. It is now characterized not by expanding globalization, but rather by a prolonged slowdown in growth, with the potential for a new global paradigm to emerge in the next several years.

This hiatus in globalization is defining new rules of the road for multinational companies. Business leaders must not only respond to a changed operating environment, but also prepare for significant shifts that are likely to occur in the coming years. The contours of this new reality are open for discussion, though. A variety of emerging forces could propel the global economy in divergent directions. We present four potential futures here, each with differing implications for business strategies: Globalization 3.0, Polarization, Islandization, and Commonization.
The State of Globalization


International economic interactions have been prevalent for centuries, but the current wave of globalization—defined here as the cross-border movement of goods, services, capital, and people—took off after the end of the Cold War in the early 1990s. As former Soviet bloc countries and China liberalized their economies and integrated into the U.S.-led global economic system, they powered globalization as never before in modern times. After decades of a global economy partitioned into separate blocs, truly global integration accelerated. Over the next decade, global trade grew by 85 percent and FDI flows rose by an astonishing 580 percent.

Globalization then declined following the U.S. dot-com crash of 2000 and the attacks of September 11, 2001. However, it rebounded relatively rapidly throughout the rest of the 2000s on the back of strong growth and international integration of the BRICS economies, as well as of many other smaller emerging markets, which provided seemingly unlimited fuel for the new engine driving globalization. By 2007–2008, global trade flows had hit an all-time high of 64.3 percent of global gross domestic product (GDP), and FDI inflows had reached an apex of over $2.2 trillion. Global portfolio investment flows were also far above their historical average, at almost 2 percent of global GDP in 2005 and 2006. International migration reached record levels in the 2005–2010 period. In many ways, 2007 represented the peak of globalization—but as with many other economic and financial indicators that peaked in 2007, it was a bubble burst by the subsequent global financial crisis.

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Globalization takes a time-out

The 2008–2009 global financial crisis and recession proved more disruptive to global integration than any previous challenge to globalization. The U.S. subprime mortgage crisis that nearly caused the American financial sector to collapse and created waves in financial and housing markets around the world was not only detrimental to global economic output, but also to the intercountry economic linkages essential to globalization. As a result, all major economic indicators of globalization fell during that period—both in absolute terms and as a share of global GDP.

After contracting in 2009, the global economy returned to growth in 2010 thanks in large part to the economic strength of emerging markets, and in particular to China. The emerging markets were less affected by the global financial crisis than were developed markets; as a group, they maintained a positive GDP growth rate of 3 percent in 2009 while developed markets contracted by 3 percent in the same year. Although emerging markets suffered from lower demand for their exports and reduced global capital flows, they largely were able to decouple

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2 The BRICS are Brazil, Russia, India, China, and South Africa.
themselves from the economic dislocations in developed markets and forged ahead with intra-emerging market trade and investment. However, seven years later, profound cracks are starting to show in many emerging markets’ growth models, with GDP growth in those markets expected to decline in 2015 to its lowest level since 2009.

This emerging market slowdown, coupled with the continued low-growth environment in most developed markets, makes it clear that when the global economy hit bottom in 2009, it entered a new phase in which the seemingly constant march of globalization has been halted. One reason for this is that most large economies are already globalized (with the exception of some frontier markets in Sub-Saharan Africa and a few others). This contrasts with the 1990s, when post-Soviet countries and areas of the world that had been caught in the struggle between capitalism and communism offered seemingly unlimited growth potential, and the 2000s, when the BRICS led the second globalization wave. Today, global economic growth has slowed, averaging close to 2 percent during the global hiatus since 2009, compared to a more robust almost 3 percent in Globalization 1.0 (1989–2000) and Globalization 2.0 (2001–2008).

Assessing globalization indicators today

Weakness across many dimensions of globalization highlights that global economic interactions are currently coasting from the momentum of cross-border linkages established during the previous two decades, but without a new engine to drive another period of increased globalization.

International trade in goods has historically been the benchmark of globalization. In a worrying sign, goods trade has stagnated in recent years. Although global goods trade reached an all-time high of $38 trillion in 2014, its share of global GDP peaked at 52 percent in 2008 and does not appear to be on track to reach that level again in the near term (see figure 1). In fact, trade in goods has fallen as a share of global GDP every year since 2011.

Figure 1
Global trade remains below its precrisis peak, but trade in services is growing

Trade in goods and services
% of global GDP

Sources: World Trade Organization; A.T. Kearney analysis
On the other hand, one area of globalization presenting strong growth is international trade in services, which includes transport of passengers and freight, telecommunications and postal services, insurance and financial services, legal and accounting services, and other business services. International services trade has historically been small, accounting for just 7.1 percent of global GDP in 1990 and 8.9 percent in 2000. However, global services trade grew to 12.4 percent of GDP in 2008 before receding in the wake of the global financial crisis. But in 2014 it overtook its former peak, topping 12.5 percent of GDP.

After the fall of the Berlin Wall and the breakup of the Soviet Union, international migration increased dramatically, growing 67 percent in the 1990–1995 period compared to the previous five-year period. Elevated levels of international migration also continued through the subsequent period of globalization, reaching an all-time high in the 2005–2010 period (see figure 2). However, international migration has lessened since 2010, and the UN Population Division forecasts that it will continue to fall in the coming decades—although the current wave of refugees pouring into Europe from the Middle East and North Africa has increased sharply since those projections were made. In early December, the UN High Commissioner for Refugees estimated that more than 900,000 migrants had arrived in Europe in 2015, and predicts a similarly large flow in 2016—although the actual numbers may end up being far higher.

**Figure 2**

*International migration is falling as more people stay in their home countries*

In marked contrast to lower flows of international migrants, global tourism is experiencing vigorous growth. The UN World Tourism Organization estimates that there were more than 1.1 billion tourism arrivals worldwide in 2014, more than doubling levels recorded just two decades earlier. Although international tourism suffered a slight decline during the global recession, the number of international tourists surpassed its precrisis peak in 2010, and the money spent on international tourism recovered by 2011 (see figure 3 on page 8). In fact, growth in international tourism receipts has outpaced global GDP growth since the 2008–2009 financial crisis and recession, thanks in large part to the increase in international tourists from emerging markets, especially China.
**Figure 3**  
**Global tourism continues to expand, with emerging market tourists growing as a share of the total**

**International tourism expenditures and arrivals**  
$\text{\$ billion}$  
$\text{Million tourists}$

![Graph showing international tourism expenditures and arrivals from 1995 to 2013.](image)

- **Legend:**  
  - Emerging market expenditures (left axis)  
  - Developed market expenditures (left axis)  
  - Tourist arrivals (right axis)

**Note:** Developed markets are “high-income” countries; emerging markets are “low- and middle-income” countries.  
**Sources:** World Bank Worldwide Development Indicators; A.T. Kearney analysis

**Figure 4**  
**FDI remains well below its precrisis peak, but flows are increasingly going to emerging markets**

**Foreign direct investment inflows**  
$\text{\$ trillion}$  
% of global GDP

![Graph showing foreign direct investment inflows from 1985 to 2014.](image)

- **Legend:**  
  - Inflows to emerging markets (left axis)  
  - Inflows to developed markets (left axis)  
  - Worldwide inflows as % of GDP (right axis)

**Note:** Emerging markets are developing and transitioning economies.  
**Sources:** UN Conference on Trade and Development; A.T. Kearney analysis
Emerging markets are also playing an increasingly important role in FDI. In the 1989–2000 and 2001–2008 periods, emerging markets received about one-third of annual FDI inflows. Since 2009, their share has risen to just over half (see figure 4 on page 8). A similar, although less marked, trend is also evident for the source of FDI flows. Emerging markets have increased their outward FDI from just 10 percent of the global total between 1989 and 2000 to 32 percent in the post-2008 financial crisis period. Despite this rising role of emerging markets in FDI flows, the global level of FDI has fallen from its peak of slightly more than $2 trillion in 2007 to only $1.2 trillion in 2014—a drop of 39 percent. FDI is not only lower in absolute terms, but also as a share of the global economy: in 2014, FDI accounted for only 1.7 percent of global GDP, compared to an average of 2.2 percent between 2001 and 2008.

International portfolio investment flows also remain lower as a share of global economic activity than they were in Globalization 2.0. Whereas they accounted for almost 2 percent of global GDP in 2005, portfolio investment flows were only about 1 percent of global GDP in 2014 (see figure 5). In contrast to FDI flows, however, portfolio flows have risen in absolute terms: although they have yet to reach their precrisis peak of $922 billion in 2006, they have nevertheless averaged $724 billion annually since 2009. Developed markets still receive the vast majority of international portfolio investment, due to the maturity and size of their financial markets and their perception among investors as a safe haven in times of macroeconomic uncertainty.

Figure 5

Portfolio investment flows are relatively strong, and are still dominated by developed markets

Note: Developed markets are “high-income” countries; emerging markets are “low- and middle-income” countries.
Sources: World Bank Worldwide Development Indicators; A.T. Kearney analysis
Today’s Global Economy and Operating Environment

The global hiatus that has persisted since 2009 differs from Globalization 1.0 and 2.0 in several important ways. Overall dynamics are not only more multifaceted and complex than the globalization of the 1990s and 2000s, but the current global economic order is underpinned by five new forces that are reshaping the global business environment. Two of these new forces are the result of developments that arose during prior periods of globalization, which laid the groundwork for the current time-out. The other three are independent forces of the global operating environment that have arisen in the postcrisis period, defining new rules of the road for global companies.

Preparing to take a pause

Two contours of the current period arose from developments during Globalization 1.0 and 2.0: increased prosperity—particularly in the emerging markets—and the rise of the knowledge economy.

Increased prosperity. As more countries have integrated into the global economy, vast numbers of people in emerging and frontier markets have been pulled into the global workforce and the prosperity of households in many emerging markets has increased dramatically. According to the International Monetary Fund (IMF), emerging markets’ income per capita at purchasing power parity has risen by more than 300 percent since 1990. As a result of this rising prosperity, emerging and frontier markets now account for more than 57 percent of the global economy (measured at purchasing power parity), compared to just 36 percent in 1990. Consumer spending has also increased sharply in emerging markets. In 1995, real private consumption in emerging markets accounted for only 20 percent of global private consumption but represents nearly 30 percent in 2015, according to numbers from the Economist Intelligence Unit.

However, the rising prosperity of a number of emerging markets is shifting the global value chain landscape, and it may be reducing international trade in goods as a result. Many formerly low-wage manufacturing markets have developed economically and achieved higher income levels, meaning wages are now higher too. There is anecdotal evidence to suggest that higher labor costs in such markets increasingly are driving businesses to locate production facilities closer to home. As more production takes place in home markets, the flow of international trade in goods slows. Rising prosperity in emerging markets is likely another factor contributing to the reduced flow of economically motivated international migration (by far the largest driver of migration over past decades). This is particularly true in the current macroeconomic environment, in which the economic prospects of many key developed markets are somewhat uncertain. Rising emerging market prosperity is also a key driver of increased international tourism. For instance, China is the powerhouse behind much of the growing demand for tourism, having surpassed the United States in 2012 to become the world’s top spender on international tourism.

Rise of the knowledge economy. Human and physical capital—in the forms of abundant cheap labor and the infrastructure to support a manufacturing sector—were considered the principal engines of growth in previous periods of globalization. Thanks to technological advancements in recent years, knowledge-based capital—an intangible form of capital that comprises computerized information (databases and software), innovative property (copyrights, R&D, and patents), and economic competencies (management know-how and brand building)—has become much more important. The knowledge economy began to emerge in the late 1990s and early 2000s, led by innovation and growth in the technology and human capital sectors. In 2013, the
Organisation for Economic Co-operation and Development (OECD) reported that investments in knowledge-based capital in OECD countries exceeded the investment in physical capital, such as machinery and vehicles, for the first time in 1997, and have been increasing at a higher rate ever since. The rate of investment in the knowledge economy will continue to increase, as it demands a more educated and skilled labor force to create and share knowledge, institutions that enable entrepreneurship and the free flow of ideas, information and communications technology (ICT) infrastructure, and public-private collaboration to create a vibrant environment.

The **rise of the knowledge economy** may reduce global trade in goods but boost the value of international services trade.

The rise of the knowledge economy may reduce global trade in goods. Increasingly sophisticated industrial robots erode the business case for outsourcing production to lower-wage markets because fewer workers are needed to run factory operations wherever they are located. Similarly, the upsurge of additive manufacturing or 3D printing is already lowering the incentive for companies to locate their manufacturing operations overseas, a trend that will accelerate as the technology advances and decreases in cost. Companies such as Amazon and UPS are stepping up their experimentation with 3D printing technology to meet growing consumer demand for rapid delivery of highly personalized goods. On the other hand, the knowledge economy may be boosting international services trade. Advances in ICT, and the use of the Internet in particular, have enabled the growth of business-to-business services trade in recent years, making outsourcing widely available to even medium-sized and smaller companies.

**New rules of the global economy**

In addition, three new forces shaping the global economy have arisen in the wake of the global financial crisis.

**Persistent macroeconomic uncertainty.** Over the past 18 months, the IMF, World Bank, and G20 have voiced concern about long-term prospects for global economic growth and prosperity. Most major developed markets continue to underperform, and there is growing unease about weakness and volatility in emerging markets. In particular, declining momentum in China, modest growth in the United States, and a sluggish, uneven recovery in Europe are weighing heavily on the global economy (see figure 6 on page 12).

- The macroeconomic performance of **China** is critical to the global operating environment. Over the past four decades, China developed more rapidly than any nation in recorded economic history, moving from one of the poorest nations in the world to a global economic engine averaging 10 percent economic growth annually from 2000 to 2010. However, over the past few years, the Chinese economy has slowed, and the Economist Intelligence Unit predicts that its economic growth will average just 6.0 percent over the next three years. This has profound implications for the global market and has created mounting pressure on Chinese policy makers to stimulate the economy further. However, recent volatility in China’s stock market and failed government intervention to correct the market crash have thrown into
doubt how much control China’s government has over its economic performance. But whether Chinese growth stabilizes around 6 percent or falls further in the coming years, it is clear that global businesses have been affected by this shift to a lower growth environment.

• In contrast, the United States appears finally to be experiencing an economic resurgence spurred by a host of factors, including the shale oil and gas boom, rising consumer demand, and increased financial sector stability. As a result of these stronger economic fundamentals, the Economist Intelligence Unit predicts that U.S. economic growth will average 2.4 percent annually in the next three years. This relatively robust performance will create opportunities for business. For instance, as American consumers begin to feel more confident, they may unleash pent-up demand for durable goods and other big-ticket consumer goods. In addition, businesses operating in the United States will enjoy lower costs for domestic energy and imported inputs due to the strength of the U.S. dollar.

• As the largest economic bloc in the world, the performance of the European Union (EU) economy matters greatly to the global operating environment. The sovereign debt crisis that began in 2009 has yet to be fully resolved. The Economist Intelligence Unit forecasts that EU economic growth will average only 1.8 percent annually over the next three years. High unemployment rates remain one of the greatest threats to EU stability and competitiveness. The IMF estimated that unemployment in France in 2015 was 10.2 percent, while in Greece and Spain it was 26.8 and 21.8 percent, respectively. This low-growth, low-employment environment is weighing on European consumer confidence and spending levels, reducing opportunities in EU markets.

These divergent growth prospects and key uncertainties surrounding the world’s three largest economies are creating persistent macroeconomic uncertainty. Current forecasts put the annual global economic growth rate at around or just under 3 percent on average in the 2015–2020 period, but significant economic and financial crosscurrents and profound asymmetries could
easily reduce global growth prospects—and there is a vigorous debate among economists as to whether the global economy can and will return to stronger, more stable growth.

In developed markets, the debate has centered on secular stagnation—the idea that high savings and low investment rates are perpetuating sluggish growth. The secular stagnation hypothesis has been popularized by former U.S. Treasury Secretary Larry Summers, who argues that greater government spending—including public investment in physical infrastructure—is needed to break out of this low-growth environment. Another commonly cited reason for lower growth prospects in developed markets is the slowing of productivity growth in recent years. The deceleration in total factor productivity growth began long before the global financial crisis and recession, with the IMF attributing that slowdown to the fact that gains from information technology were achieved back in the 1990s, economic activity has shifted from high-productivity sectors such as manufacturing to low-productivity sectors such as services, and returns on additional years of education have diminished among already highly educated labor forces.

Economists vigorously debate whether the global economy will return to stronger, more stable growth.

Emerging and frontier markets also face structural challenges to higher economic growth. In its June 2015 Global Economic Prospects, for instance, the World Bank suggests that the contribution of emerging and frontier markets to global growth peaked in the 2011–2014 period, and that they are now facing a “structural slowdown” likely to last for years as growth in their working age population, productivity, and investment have all weakened. This is reason for genuine concern, because it was emerging markets—led by the BRICS, and in particular China—that helped to stabilize the global economy after the global financial crisis. And over the past several decades, it had become conventional wisdom that these markets would be fresh, sustained sources of growth for global business. However, this assumption no longer holds. At the GBPC’s annual meetings and in our global surveys of CXOs, business leaders increasingly express their intent to seek the safe harbor of investing in developed markets as they navigate this volatile global economic environment. Most strikingly, in the 2015 A.T. Kearney Foreign Direct Investment Confidence Index®, seven of the top 10 countries in the Index and nearly three-fourths of all countries ranked in the top 25 are developed markets.

This persistent macroeconomic uncertainty is a primary reason that globalization has stalled in recent years. The number one reason for lower FDI flows, according to global business executive responses captured in the A.T. Kearney FDI Confidence Index over the past three years, is lack of confidence in the macroeconomic outlook. This uncertainty is likely also affecting the nature of cross-border portfolio investment flows. Given business leaders’ concerns about the stability of the macroeconomic environment, it is hardly surprising that developed markets—long seen as safe harbor investment destinations—continue to receive such a large share of global portfolio flows.

Return of geopolitics. Geopolitics has also made a comeback in recent years and is playing a crucial role in the current phase of the global economy. Geopolitical tensions can lead to negative economic implications for not only those markets that are directly involved in
geopolitical disputes, but also for their neighbors, as well as for the regional and global economy. Key geopolitical hotspots today include Russia and Eastern Europe, East Asia, and the Middle East (see figure 7).

- Russia’s annexation of Crimea in early 2014 has produced a ripple effect in the global economy and tensions with the Western world that could significantly alter the course of global economic relations. In tit-for-tat moves, first the United States, the EU, and other Western countries implemented sanctions on Russian individuals, banks, and energy companies; subsequently, Russia retaliated by banning food imports from the EU, United States, Norway, Canada, Australia, and, more recently, Iceland, Liechtenstein, Albania, and Montenegro. Russia’s isolation started to grow in summer 2015 due to its increased military commitment to Syria’s government, including a new potential flashpoint between NATO and Moscow after Turkey shot down a Russian jet along its southern border in November 2015. In part because of these sanctions, Russia’s economy shrank 4.6 percent in the second quarter of 2015, followed by 4.1 percent in the third quarter, leading to its first recession since the 2008 financial crisis. The IMF estimates that if sanctions remain in place for the next several years, Russia’s economy could lose a cumulative 9 percent of its GDP in the medium term.
Businesses most affected by these sanctions include those in the energy sector and those in the car industry with factories in Russia or stakes in Russian companies. For example, in March 2015 General Motors decided to close its St. Petersburg plant after investing nearly $1 billion three years earlier, listing low oil prices, falling demand, and high interest rates as reasons for the factory closure. French car manufacturer Renault also halted its production in Moscow for a few weeks in early 2015 because of a steep decline in car sales.

- Geopolitical tensions are also on the upswing in **East Asia**, particularly in the South China Sea. Maritime territorial disputes are escalating in part due to the speed at which China is building artificial islands—and its vigorous responses to those who enter its claimed waters without permission. For instance, over the past year China rammed Vietnamese ships that tried to stop the building of a Chinese oil rig in disputed waters and sent fighter jets to intercept a U.S. military surveillance plane, nearly leading to a midair collision. There is a risk that such confrontations could escalate into more serious clashes and impose risks for global economic activity. The South China Sea is home to nine of the top 10 global container ports by volume and carries more than $5 trillion of seaborne trade every year. If tensions were to flare up, multinational corporations could suffer disruptions or delays in their supply chains.

- Another geopolitical conflict zone affecting business activity is the **Middle East and North Africa**. The ongoing civil war in Syria, together with the rise of the so-called Islamic State (ISIS) and its ongoing attacks, is disrupting economic activity in the region and has the potential to threaten global oil supply and prices. These conflicts have not only destroyed essential infrastructure, displaced Syria's labor force, and decreased productivity and output due to trade embargoes, but the greater Levant area has also been affected. According to estimates by World Bank economists in late 2014, the economies of Turkey, Lebanon, Syria, Jordan, Iraq, and Egypt had already lost an estimated $35 billion in output as a result of the Syrian civil war and the spread of ISIS. Additionally, continued social unrest from the 2011 Arab Spring and the emergence of terrorist groups taking advantage of politically unstable countries in North Africa have disrupted economic growth throughout the region. For instance, the Economist Intelligence Unit calculates that Libya's economy has contracted on average 15.5 percent annually in the past three years. If violent extremist groups continue to strengthen their foothold in this region, economic growth will continue to slow, global supply chains will be disrupted, and the current migrant crisis now pressuring the EU will only worsen. And the threat is no longer contained within this region, with attacks on civilian targets organized or inspired by ISIS occurring in countries around the world.

The return of geopolitics is having a complicated effect on globalization. On the one hand, geopolitical tensions are likely reducing cross-border trade and investment flows. On the other hand, geopolitical instability is exacerbating the cross-border flow of people. The Syrian civil war, now in its fifth year, has displaced more than seven million people internally and more than four million internationally, according to mid-2015 figures from the UN High Commissioner for Refugees. Syria's neighbors have thus far taken the majority of the migrants—for example, more than 1.1 million Syrians have settled in Lebanon, while more than 2.2 million have fled to Turkey—but these flows are now expanding into Europe and elsewhere. Flows of refugees are fundamentally different from those of economic migrants, who tend to arrive in more easily manageable numbers and have more resources with which to start a life in their new homes. Following the November 2015 attacks in Paris, the migration crisis has been made more complex by a far-right political backlash against Muslim immigrants and asylum seekers in Europe and the United States.
Heightened nationalism and protectionism. Market liberalization and economic integration, carried out by countries looking to reap the benefits of connected global supply chains during times of global economic expansion, can also generate tensions when economic activity slows and governments seek ways to improve local economic performance. After decades of agreeing to lower global barriers on a host of economic interactions, countries are now increasingly as likely to erect new obstacles to cross-border activity, including financial regulations, rules governing the Internet, immigration restrictions, and trade barriers.

Seven years after the global financial crisis, many developed economies continue to face low or stagnant domestic economic growth, high unemployment, and a growing income inequality gap. Developed economy governments have struggled to raise middle-class incomes and create middle-class jobs. These woes—in particular income inequality, which is in part driven by competition from overseas workers and new technologies—have resulted in anxiety that is fueling inward-looking politics and nationalism. In Europe, these economic and social challenges have resulted in the rise of radical parties on the left and right, while in the United States, they have resulted in polarization and gridlock. The growing popularity of “outsider” or fringe candidates and political parties in democracies around the world is a response to popular sentiment that the global economic order is not meeting people’s expectations for rising prosperity.

These tendencies are not limited to developed markets, though. Multinational companies have noted a shift among emerging market consumers, including those in Russia, China, Brazil, and Turkey, away from Western brands and toward local labels. Growing nationalism is partially responsible for this trend, which reduces the appeal of globalized goods and services, as consumers increasingly prefer domestic substitutes in order to support local businesses and brands. Domestic brands often also offer a better value proposition for emerging market consumers. For example, the Chinese electronics company Xiaomi has grown rapidly since its founding in 2010, becoming the largest smartphone vendor in China in 2014. While the company has faced criticism for copying its marketing approach from Apple and has been sued by rival Ericsson for patent infringement, the company is thriving in China as a low-cost, high-value alternative to foreign technology.

With the rise in nationalism, governments are responding with protectionist measures—including stricter trade regulations, tighter foreign investment policies, and competitive currency devaluations—to achieve various macroeconomic and geopolitical goals. For instance, by the OECD’s count G20 economies have implemented 1,244 new restrictive trade measures since the global financial crisis, only 282 of which have since been lifted.

Nationalist and protectionist attitudes and policies are clogging the engines of globalization. They reduce international trade and investment flows, as a result of both specific policies that prevent such transactions and shifting consumer preferences that make expansion into foreign markets a less appealing business case. At the same time, more nationalist attitudes are likely to reduce the lure of international migration, as migrants would feel unwelcome and may face discrimination and violence in some countries. Given these trends, it is no wonder that an increasing number of multinational corporations are hiring political scientists, starting their board meetings with geopolitical briefings, and seeking the advice of former diplomats, spymasters, and military leaders.
What Will Emerge after the Global Hiatus?

Economist Herbert Stein famously observed, “If something cannot go on forever, it will stop.” The current global economic hiatus cannot go on forever, so eventually it too will stop. What will come next, though, is more difficult to predict than ever before (see figure 8). A variety of emerging forces could propel the global economic order in wildly divergent directions. There are two critical unknowns that will shape the future of the global economic environment:

- The degree to which geopolitics will continue to fragment the international system
- The overall level of global economic growth

Figure 8

The future of the global operating environment is uncertain

The changing global economic order

1989–2000

Globalization 1.0

- Post-Soviet bloc countries and China begin to liberalize

2001–2008

Globalization 2.0

- The BRICS and other emerging markets power the global economy

2009–?

Global Hiatus

- Developed and emerging markets experience economic volatility

Four possible futures

- Globalization 3.0
- Polarization
- Islandization
- Commonization

Note: BRICS are Brazil, Russia, India, China, and South Africa.
Source: A.T. Kearney analysis

There are also, as we discussed earlier, a variety of competing forces that are shaping the global operating environment today and will continue to mark its evolution in the coming years. How these forces grow in strength and interact with one another will determine which of four alternative futures may emerge (see figure 9 on page 18). Since we do not yet know when the global hiatus will end, there are no explicit time frames associated with our alternative futures. Rather, they are plausible visions of the global economy that could materialize in the next decade or so.

The first potential future is a renewed chapter of cross-border integration that we call “Globalization 3.0,” which corrects for the various systemic deficiencies that we have pointed to in previous sections. The second, “Polarization,” marks a return to historical normalcy in which rising geopolitical tensions and economic rivalries divide the global economy into competing blocs of countries. “Islandization” is the third potential future, in which nationalism gains ground in key economies around the world, leading to dramatic protectionist measures and drastically reduced global economic flows. The fourth possible future represents a greater break from the past than ever before. We call it “Commonization” because it entails the rise of a new global commons through additive manufacturing and the sharing economy—and
a corresponding fall of the consumer capitalism that has defined the recent past. It may sound the most far-fetched, but in fact leading thinkers ranging from Jeremy Rifkin to Vivek Wadhwa have put forward forceful arguments that such an economic step change could occur.\(^3\)

### Globalization 3.0

Globalization has made a comeback as new engines propel it forward. The global hiatus was just a temporary setback on the long march of globalization that began when the Berlin Wall fell in 1989. With the return of robust growth in global consumer demand, new frontier markets are entering the global value chain as the manufacturers to the world. Strong global economic growth has led to a calming of geopolitical tensions, as country governments have more to gain from cross-border economic ties than from nationalism and protectionism.

Globalization 3.0 was first sparked by strong growth in consumer demand in the United States, China, and the EU. The robust economic recovery that began in earnest in 2015 in the United States was sustained in the following years, creating higher global demand for both

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Note: ICT is information and communication technologies.
Source: A.T. Kearney analysis

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commodities and consumer goods in what remains the world's largest consumer market, particularly as the country's largest adult cohort, the millennial generation, entered their prime years for new household formation and consumer spending. At the same time, China's Communist Party was able to successfully overcome market turbulence and questions about its plans to sustain growth of around 6 percent for several years in a “new normal” of lower but stable growth. Beijing has also successfully begun to implement its planned transition from an investment- and export-driven to a consumption-led economy, creating greater demand for imported consumer goods for China's growing urban middle class. The EU was finally also able to emerge from its protracted sovereign debt crisis and once again fuel global growth via high-end manufacturing and services exports, as well as demand for imported consumer goods.

The WTO will finally have a “21st-century agreement” that protects international intellectual property rights and liberalizes services trade.

With the three largest global economies firing on all cylinders once more, and with Chinese labor having become too expensive for that country to continue serving as “manufacturer to the world,” multinational corporations see Sub-Saharan Africa as the next frontier of globalization. Governments in large economies throughout the region—including Nigeria, Kenya, Ethiopia, and Ghana—are investing heavily in transportation, power, and communications infrastructure to fully integrate into global supply chains. This infrastructure has finally enabled Africa to connect with itself and unlock its huge latent economic potential. As Sub-Saharan Africa markets enjoy strong economic growth and greater job opportunities for their large and young populations, the emerging African middle classes provide a further boost to global consumer demand growth and globalization.

Renewed global growth and reduced geopolitical tensions have reinvigorated the push toward a new multilateral trade agreement negotiated under the World Trade Organization (WTO). The key provisions of various regional trade agreements that have been implemented in recent years—including the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (T-TIP)—are being incorporated into a new global agreement. The WTO will finally have a “21st-century agreement” that addresses critical issues such as protecting international intellectual property rights and liberalizing services trade, in addition to lowering barriers on traditional trade in goods. Even without this agreement having been finalized yet, cross-border flows of goods, services, and capital are on the rise.

A final engine for Globalization 3.0 has been the quickening expansion of ICT. Past improvements to ICT, especially the Internet, and the resulting growing global interconnectedness helped facilitate previous periods of globalization, in particular Globalization 2.0, when Internet users exploded from 400 million in 2000 to almost 1.6 billion in 2008. The seamless outsourcing of many internal business functions (such as accounting, IT support, and customer services) that began in Globalization 2.0 has accelerated in Globalization 3.0 as more dramatic changes in ICT have arisen. The vast majority of the 57 percent of the world’s population that remained offline in
2015 now have Internet access thanks to novel approaches to wireless networks from Facebook, Google, and SpaceX, including high-altitude weather balloons and space-based assets.

**Business implications:** Multinational corporations thrive in Globalization 3.0, although the competitive environment is more difficult and diverse than it was in Globalization 1.0 and 2.0. Large, innovative corporations based in emerging markets have succeeded in their international expansion goals, shaking up the global business landscape. Overall, though, global business strategies are largely the same as they were in Globalization 2.0—albeit focused on different geographies for sourcing and production (Sub-Saharan Africa rather than China). As the prosperity and buying power of emerging market consumers have continued to rise, opportunities in new and growing consumer markets abound. And since country governments have tried to harmonize regulations and standards in order to compete in an increasingly globalized economy, regulatory compliance costs for multinational corporations are relatively low.

**Polarization**

Polarization marks a return to normalcy in the global economic and political system. The heady globalization of the 1990s and 2000s was an aberration driven by two unique engines. The first was the geopolitical stability that emerged under a Pax Americana in which the United States ensured relative peace and stability across key regions. The second was the unprecedented economic growth in a variety of emerging markets, most notably China, whose meteoric ascent as a manufacturing and export powerhouse was one of the key factors that drove Globalization 1.0 and 2.0. The global hiatus marked a beginning of a “regression to the mean” of both geopolitics and the global economy, with the sputtering out of these twin engines of globalization. In its place has come Polarization, the development of separate blocs of geopolitical alliances and corresponding economic partnerships.

The argument of a “regression to the mean” that Harvard University professors Larry Summers and Lant Pritchett made in 2014 has proved all too prescient. Chinese and Indian economic growth rates were not sustainable at the high levels of the 1990s and 2000s, instead returning to average historical growth rates of closer to 2 percent. This sharp slowdown in economic growth was particularly problematic for China, where the country’s leadership had staked its legitimacy on rapid economic growth. In the absence of economic dynamism, Beijing stoked nationalist sentiments and began to restrict foreign investment and trade. These shifts in government policy and popular sentiment largely cut China off from Western economies, as China began to focus more on its economic ties to Russia and friendly markets in Southeast Asia.

There is also what contemporary historians quickly recognized as a regression to the mean in geopolitics, as heightened nationalism in China, Russia, and other large emerging markets has led to rising tensions with the United States and other countries. Geopolitics had already made a comeback during the global hiatus, but the reemergence of great power rivalries—especially between the United States and China—has been the main driver of Polarization. Just as geopolitical tensions between the United States and the Soviet Union defined global politics and economics during the Cold War, so too do U.S.-China tensions define Polarization. Separate blocs of geopolitical alliances and corresponding economic partnerships have emerged. This process began with the United States pushing through the TPP with 11 other Pacific nations throughout the Americas and Asia (but not China), and the T-TIP with the 28 member states of the EU. In response, China sought to strengthen the Shanghai Cooperation Organization.

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(SCO) with Russia and several Central Asian countries. Beijing also concluded the Regional Comprehensive Economic Partnership (RCEP), deepening the links between the 10 member states of the Association of Southeast Asian Nations (ASEAN) and the six countries with which ASEAN has trade agreements.\textsuperscript{5} In addition, Beijing further withdrew from the Bretton Woods institutions, which it perceived as being dominated by the United States and its allies, and promoted an alternative international architecture, including the Asian Infrastructure Investment Bank and the New Development Bank. Beijing and Washington are now locked in a new zero-sum competition, pressing countries around the world to declare allegiance to one bloc or the other. While some countries deftly play both sides, many are forced to make that choice, reducing their opportunities for international economic ties. Global trade has devolved from a world of rules-based convergence to one of political calculations and barriers.

Polarization also hinders the business strategies of globally integrated supply chains and growth from sales in diversified markets around the world.

Cyberspace has also become a domain of increasing international espionage and outright warfare. The relative anonymity afforded by cyberspace encouraged belligerent actors to launch deniable attacks at relatively low economic cost, leveling the playing field between weak and strong states in new ways. Continued cyber breaches, particularly those perpetrated by foreign governments, have resulted in some corporations turning inward and becoming less engaged in global markets, as well as retreating in digital offerings to the public, whose members are increasingly disinclined to risk their personal information. The strong defensive responses of national governments to these threats have also limited the global cohesion of the Internet, instead creating stand-alone proprietary networks with fragmented connectivity, impeding information and content sharing across borders.

**Business implications:** This geopolitical conflict negatively affects the continuity and security of business operations for foreign companies operating in China and the United States, as national security scrutiny of foreign investors is particularly intense in those markets. Polarization also hinders the business strategies of globally integrated supply chains and growth from sales in diversified markets around the world. Private companies increasingly find themselves in the midst of geopolitical intrigue and open to increased international risk via cyberspace—no matter where they operate. Consumer markets have also fragmented along the lines of their polarized blocs, with consumers favoring goods produced domestically or in allied countries. Multinational corporations that locate their production in countries allied with their home government and also focus their sales in these markets are able to successfully navigate geopolitical tensions, but Polarization makes for a much more complex global operating environment than businesses faced in the 1990s and 2000s.

\textsuperscript{5} ASEAN member states are Brunei, Burma (Myanmar), Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. ASEAN has trade agreements with Australia, China, India, Japan, South Korea, and New Zealand.
Islandization

Throughout world history, there have been vibrant periods of regional and global integration with strong economic growth, followed by longer periods of fragmentation and lower growth. It should come as no surprise, then, that this most recent period of globalization also seems to have come to an end. Every economy is increasingly its own island. Nationalist politics and popular backlash against global trade caused by income inequality in major economies during the global hiatus led to overwhelming political pressures to opt out of global connectedness. This in turn led to instability in emerging markets and the embrace of nativist politics. Economists argued until they were blue in the face that global connectedness in fact brought greater prosperity and could address inequality with the right public policies in place, but the broader population rejected these “elitist” arguments and pushed their governments to become more isolationist.

In countries around the world, tens of millions took to the streets in support of leaders touting increasingly populist, nationalist, and protectionist policies, toppling all those who dared suggest such moves were short-sighted. As these leaders made good on their pledges, the global economy began to experience Islandization. Global trade and capital flows dropped sharply as factories increasingly produced solely for domestic consumption, driven by both government protectionist policies and consumer preferences for products made locally. The new global economic order is now highly fragmented, sharply increasing inequality between countries that have vast resources and those that are less endowed.

It started in the United States. Income inequality became a contentious issue in the U.S. presidential election of 2016—even more so than analysts had predicted. Democrats and Republicans alike seized on inequality as a rallying cry against globalization and capitalist greed. The result was a dramatic turn inward by the U.S. government, abandoning the international norms in favor of free trade that it had helped establish decades earlier. Congress rejected the TPP, cementing the new isolationism of the United States, both at home and in the eyes of its allies. The T-TIP was shelved, and legislators moved to undo key elements of other existing agreements, including the North American Free Trade Agreement (NAFTA).

As a result, the governments of other major economies—including the United Kingdom, Japan, China, Brazil, and India—also began to adopt protectionist measures in a “beggar-thy-neighbor” international policy environment. Although WTO officials initially tried to stem the tide of these antiglobalization measures, eventually they succumbed to the will of their governments back home and abandoned the mantle of international trade liberalization. Instead, the WTO now serves only as a forum for accusing other members of protectionist policies—although since all major economies are equally guilty, it is really just a means of satisfying their nationalist constituents (and enriching armies of trade lawyers).

The strong nativist impulses that dominate this world of Islandization do not stop at the national level. In many countries, citizens increasingly identify with more localized, subnational identities. This wave of local identity politics has not only benefited long-standing separatist movements in Quebec (Canada), Catalonia (Spain), Kurdistan (Turkey, Iraq, Syria, and Iran), and Tibet (China), but also dormant or new local autonomy movements in Texas (United States), São Paulo and Rio de Janeiro (Brazil), and Siberia (Russia). Online social networks and other communications technologies have strengthened these local movements, as people increasingly filter their friends and news sources to include only those that share their same limited identity and worldview. Even as national governments are destroying international governance mechanisms, local autonomy and separatist movements are sapping the power of national governments from
Governments are weakened and exhausted, and more moderate candidates for office keep their distance as the circus plays out.

With reduced international economic interconnections, national economies increasingly consume only what they produce internally. Some domestic industries benefit from this shift in economic structure, but many suffer from the lost revenue that they had earned in international markets. Western multinational firms fare particularly poorly in this environment. Household spending power is also sharply cut, particularly in developed markets, as locally and nationally produced items are more expensive than the low-cost imported goods from emerging markets that they had grown used to consuming. As a result, economic inequality actually worsens in Islandization, with the small number of “haves” able to afford the higher-cost goods while the vast majority of “have-nots” make do with less.

Those economies with vast resources—particularly energy and agricultural production—fare much better than others.

In addition to these winners and losers within economies in the Islandization world, there are even more dramatic winners and losers at the country level. Those economies with vast resources—particularly energy and agricultural production—fare much better than those that lack such valuable resources at large scales. Canada, Kazakhstan, Russia, and the United States are the relative winners, as the only countries that have among the largest endowments of both energy (primarily oil) and arable land per capita. Despite this, even these economies have experienced a drop in GDP and now have significantly lower long-term prospects for growth.

Business implications: The globalized business strategies that have dominated recent decades are rendered obsolete almost overnight in Islandization. Global value chains dry up as heavy taxes on imported components and final goods increasingly force companies to source from within their home countries. Companies that are able to rapidly adjust to this new nationalistic environment and take advantage of new manufacturing technologies to increase productivity and control labor costs perform well, as consumers flock to brands that support their highly local identities. Consumer markets also are even more fragmented in Islandization than in Polarization, providing an advantage to smaller firms with local identities, as well as to those able to cheaply tailor their products to local markets and those that are able to use joint ventures to keep their foreign connections under the radar. However, finding opportunities for businesses to grow in this environment is difficult.

Commonization

A new global economic order known as Commonization has taken shape. The continued advancement in Internet connectivity, the substantial rise of the sharing economy, and the proliferation of additive manufacturing have increasingly democratized the means of production across open-source platforms. A new global commons has emerged as a result, in which individuals reject the global consumer capitalism of the 1990s and 2000s in favor of sharing their homes, cars, 3D printers, and services with the community in exchange for the use of other people’s assets and services.
The technological advances in automation and 3D printing that started to contribute to an increase in reshoring during the global hiatus took off in subsequent years. These technologies drove localization—the process by which full-scale operations including factories, engineering sites, research facilities, suppliers, and logistics channels are set up in the same geographic area—instead of globalization. However, this trend has now been carried even further than many had expected.

The rapid improvement in 3D printing technology coupled with a sharp reduction in the cost of 3D printers has empowered individuals all over the world to set up mini-manufacturing facilities in their own communities. At the same time, expanding Internet connectivity has allowed for the sharing of ideas and product design across the global commons, without the cross-border movement of physical goods or even international travel. These trends have been particularly significant in a variety of emerging and frontier markets, undercutting global supply chains and the market share of large multinational corporations. And government regulation simply no longer can keep up with technological change, further accelerating the pace of this market transformation.

Not only are a wide variety of consumer products available from local, small-scale producers, but consumer demand for goods produced nearby has increased due to growing international public attention to climate change. As extreme weather events have become more frequent and severe, consumers in all corners of the globe have recognized the environmental inefficiencies and negative externalities associated with shipping goods around the world—sometimes many times over due to the vast and increasingly complex global supply chain model of Globalization 2.0. Engaging in the Commonization economy is thus not only a way to support the local economy, but also the well-being of the entire planet.

It turns out that peak globalization in the run-up to the global financial crisis also marked peak consumerism. The dominance of the sharing economy in the Commonization period means that households own fewer durable consumer goods and less property, instead “renting” items such as cars and vacation homes from their neighbors. The services industry has also become “commonized,” as individuals offer their services—from housecleaning to legal advice—on an on-demand basis. There has been a redefinition of work itself as greater numbers of individuals take "gig" jobs consisting of contingent and temporary labor orchestrated by IT systems that match supply and demand and leverage unused labor and assets in new, more efficient ways.

As a result of these changes, the global economy has begun to move toward what Jeremy Rifkin dubbed the “zero marginal cost society,” in which goods and services are nearly free and people are able to spend their time building relationships and collaborating with other people instead of working in traditional jobs. Rather than globalization, the world economy has embraced Commonization, in which ideas and innovations are shared across borders on the global commons but global trade and investment are largely relics of the past.

**Business implications:** Business strategies are severely disrupted in Commonization. People have increasingly become neither traditional consumers nor traditional employees. Corporations have smaller workforces, relying more on external contractors located around the world. While this reduces payroll taxes and health insurance costs, it creates more instability on project teams and generates transaction costs to find contractors for each new engagement. At the same time, consumer demand for companies’ products is much lower than in earlier periods, as consumers turn to 3D printing and the sharing economy for their wants and needs.
Conclusion and Business Implications

It is important for business leaders to recognize that the current global time-out will not lead inevitably to ever-increasing globalization, but rather that it may mark a transition phase into a new global economic order. As a result, the global operating environment could change significantly in the coming years. The four potential futures outlined above signify vastly different operating environments for multinational corporations (see figure 10).

Figure 10

Global growth and interconnectedness will vary depending on which alternative future arises

Varying outcomes in the next global economic order

<table>
<thead>
<tr>
<th></th>
<th>Globalization 3.0</th>
<th>Polarization</th>
<th>Islandization</th>
<th>Commonization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic growth</td>
<td>High</td>
<td>Moderate</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Unemployment</td>
<td>Low</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Low</td>
</tr>
<tr>
<td>Inequality</td>
<td>Moderate</td>
<td>Moderate</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Trade flows</td>
<td>High</td>
<td>Moderate</td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td>Capital flows</td>
<td>High</td>
<td>Moderate</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>International migration</td>
<td>High</td>
<td>Moderate</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Regulatory convergence</td>
<td>High</td>
<td>Moderate</td>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis

Although each of these potential futures is distinct, what emerges may be some combination of two or more of them. For instance, there could emerge a combination of Islandization and Commonization. Nationalist and protectionist policies could create regional, national, and subnational economic islands, while the relentless march of technological progress and proliferation of 3D printing and the sharing economy could simultaneously create “commonized” local economies. These two forces could severely reduce cross-border economic ties as well as consumer demand for traditional products. In this Islandization-Commonization global economy, consumer spending power would drop along with global economic performance due to fragmentation, but the fall in consumer purchasing power could be offset by reduced and changed consumer expectations.

What may be more likely than any one of these scenarios in the near future is the progression of the global economy through several of these new global economic orders in sequence.
We believe the world may already be on that path. Given the rising nationalist tendencies in countries around the world—from EU member states such as France and Hungary to the United States, and from China to Russia—and the tensions between the world’s most powerful country (the United States) and the world’s rising power (China), one could argue that the global economy is already entering Polarization. If these dynamics continue to play out, such nationalist and protectionist sentiments could easily feed upon themselves and push governments further inward, creating the conditions for Islandization of the global economy. Once Islandization arises, the global economy could remain stuck in that fragmented system for an extended period of time—decades, even.

A form of Commonization could emerge from an Islandization world, however. Commonization is largely dependent on continued technological progress, innovation, the disruption of traditional business models, and the empowerment of individual consumers and workers. As such, it may progress in parallel to any of the other three scenarios.

Getting to Globalization 3.0 involves the greatest degree of effort on the part of publics and policy makers around the world because it would require turning back the current wave of rising nationalism before it cements the global economy in a Polarization or Islandization world—after which point it would be even harder to return to a more globalized and interconnected world.

While the overall future of the global economy remains uncertain, two implications are clear. The first is that the decisions that consumers, voters, and policy makers make today will affect the future course of the global economy. It is thus important for business leaders to monitor the leading indicators in key markets around the world for signals as to which global economic order is arising. The second is that the uncertainty surrounding what comes next creates the need for multiple, divergent business strategies to prepare for and succeed in the future. Carefully monitoring how the various forces at play unfold over the coming months and years will enable businesses to stay ahead of the curve. As the current global hiatus gives way to a new global economic order, organizational foresight and agility will be critical in determining winners and losers in the new global operating environment.
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