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EMB EXCLUSIVE:

THE WORLD DEMANDS A NEW MAP

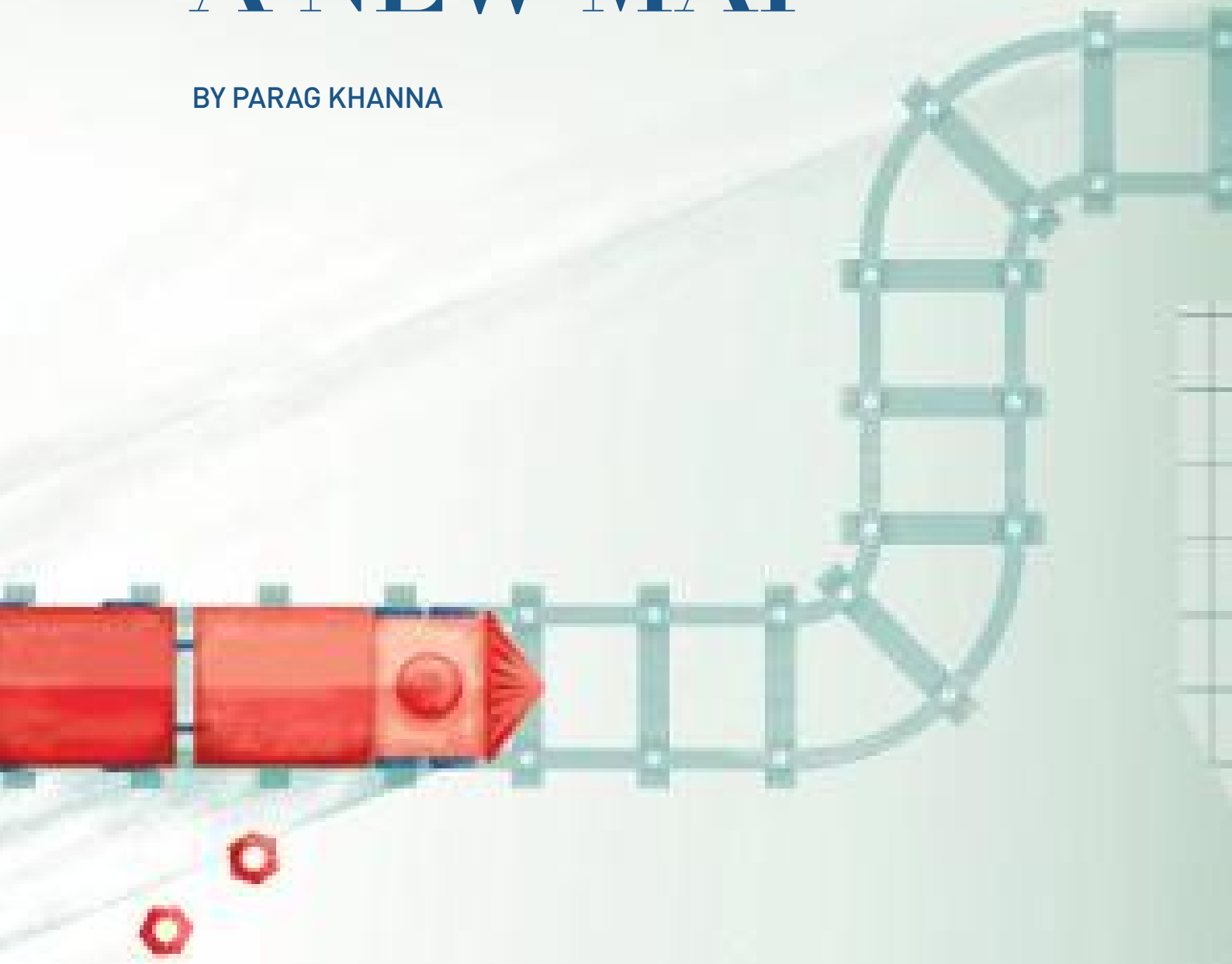
It is time to re-think how life on Earth is organized. Today, connectivity is propelling the mobility of people, goods and information to unprecedented heights; cities—and even businesses—are becoming more powerful than countries; and large companies are breaking free of their national roots and morphing into "stateless" giants. In the context of such fundamental change, a reality is dawning: the world demands a new map—a map that places connectivity at its core and focuses not on how the world is divided, but how we use it.

by Parag Khanna

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THE WORLD DEMANDS A NEW MAP

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The conventional systems that have long shaped life on Earth are floundering, rendered unfit for purpose in a world that is transforming and advancing like never before. For centuries, "geography is destiny" has been the fatalistic mantra, condemning landlocked countries to eternal poverty, teaching small countries they are destined to lose out to larger neighbors and viewing distance as an insurmountable barrier to trade, cooperation and progress. But all of that is changing; there is now a greater force than geography shaping our planet: connectivity. It is a force to be reckoned with, and one that the businesses must embrace if they are to keep up with the pace of change and succeed in tomorrow's world.

Whether through digital advancements, new trade routes, or bricks-and-mortar infrastructure, connectivity is propelling the mobility of people, goods and information to unprecedented heights, paying little regard to sovereign borders as it goes, and drawing once isolated corners of the world into the global economy. In the midst of such sweeping change, the time has come to re-think how life on our planet is organized. And as the world re-organizes, businesses, too, must reconsider where and how they fit in.

Here are eight points that corporate leaders should factor into their thinking as they strategize for life in a connected world.



1. Connectography

Where connectivity and geography collide, an evolution is taking place: emphasis is shifting from how we legally divide the world, to how we use it. Here, economic size is more important to business than national borders.

That connectivity is a greater force than geography may appear a bold statement, but the evolution is all around us. The surface of our planet is home to 64 million kilometers of roads, four million kilometers of railways, two million kilometers of pipelines and one million kilometers of Internet cables. By contrast, we have less than 500,000 kilometers of borders. With the numbers painting a stark picture, it is clear that Planet Earth demands a different map.

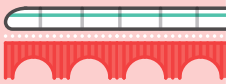
The reality is, connectivity, not sovereignty, has become the organizing principle of the human race. Our global system has progressed from the integrated empires of the 19th century, through the horizontally interdependent nations of the 20th century and into the 21st century's global network civilization, where the most connected places also boast the greatest economic strength. Imagine if our global diplomatic institutions, such as the G20, were to base their membership on economic size rather than national representation. Some Chinese megacities may have a seat at the table, while entire countries, like Argentina or Indonesia would be out.

Yet, as connectivity alters the global balance of economic power, it does not replace geography. Instead, the two are inextricably linked, resulting in a concept that I call "connectography," an evolution from political geography, which is how we legally divide the world, to functional geography, which is the way we use it.

It is this use of geography, rather than the borders dividing it, that business leaders should focus on. In the pursuit of new opportunities, while companies still have to contend with national bureaucracies and regulations, their search parameters should not be limited by sovereign boundaries. Rather, companies should strive to transcend borders rather than transact across them, and target locations with the highest connectivity.

> Our political and economic leaders are learning that connectivity is not charity, it is opportunity. And that's why our financial community needs to understand that connectivity is the most important asset class of the 21st century.

CONNECTIVITY QUANTIFIED



1 million

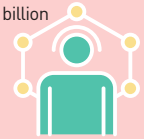
The surface of our planet is home to one million kilometers of internet cables

500,000

By contrast, the world has less than 500,000 kilometers of borders

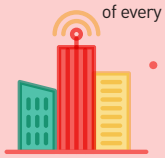
7.4 billion

The global population is 7.4 billion yet our infrastructure is designed for 3 billion



$1 trillion

We should spend $1 trillion on the basic infrastructure needs of every billion people



50 megacities

By 2030, 50 megacities will have emerged, housing more than 2/3 of the world's population

$2 trillion

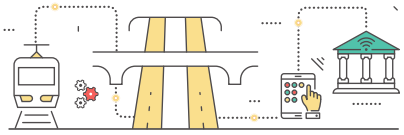
Annual defense and military spending totals $2tn. Infrastructure spending totals $2.7tn





$9 trillion

Global infrastructure spending is projected to rise to $9 trillion per year within the coming decade



2. Infrastructure

The world's population stands at around 7.4 billion people, yet our current infrastructure is designed for just three billion. Developing new infrastructure and operating in locations where infrastructure is already strong, are important to corporate success.

Global connectivity has not emerged by chance, we are building it. Combined, the world's annual defense budgets and military spending total just under US$2 trillion. By comparison, global infrastructure spending is estimated at around US$2.7 trillion and is projected to rise to US$9 trillion per year within the coming decade. Looking further ahead, it is incredible to think that we will likely build more infrastructure (and spend more on it) in the next 40 years, than we have in the past four thousand.

This investment is not before time. As a general rule, we should spend approximately US$1 trillion on the basic infrastructure needs of every billion people, yet in a world where the population stands at around 7.4 billion, we have been living off infrastructure designed for a population of just three billion.

But progress is being made. In the infrastructure spending stakes, Asia is in the lead. China announced the creation of the Asian Infrastructure Investment Bank in 2015 and in collaboration with a number of other organizations, the bank aims to construct a network of iron and silk roads, stretching from Shanghai to Lisbon. Here, clear business opportunities, including in the form of public-private partnerships, emerge for companies across the globe operating in fields such as engineering, construction and technology.

The fact that infrastructure has just been included in the United Nations Sustainable Development Goals, further reinforces its importance. Our political and economic leaders are learning that connectivity is not charity, it is opportunity. And that's why our financial community needs to understand that connectivity is the most important asset class of the 21st century.

AT A GLANCE

It is time to re-think how life on Earth is organized. Today, connectivity is propelling the mobility of people, goods and information to unprecedented heights; cities—and even businesses—are becoming more powerful than countries; and large companies are breaking free of their national roots and morphing into "stateless" giants. In the context of such fundamental change, a reality is dawning: the world demands a new map—a map that places connectivity at its core and focuses not on how the world is divided, but how we use it.



3. Urbanization

Increasingly, countries can be suburbs of cities. Within the next fifteen years, two thirds of the global population will live in megacities and it is here that companies should focus their attentions.

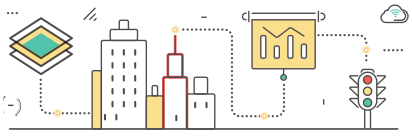
It is almost impossible to look at connectivity in isolation from urbanization. In fact, you could say that planetary urbanization is connectivity's twin megatrend. Connectivity is how we optimize the distribution of people and resources, and that distribution rests heavily on the sprawling urban metropolises that are shaping our world. By 2030, a total of 50 megacities are expected to have emerged, and they will house more than two thirds of the world's population.

Once again, Asia is where megacities are most evident. In Japan, the strip encompassing Tokyo, Nagoya and Osaka is currently the world's largest megacity, containing more than 80 million people and most of the Japanese economy. Meanwhile, with populations reaching 100 million, China's megacity clusters are taking form: The Bohai Rim around Beijing; The Yangtze River Delta around Shanghai; the Pearl River Delta, stretching from Hong Kong to Guangzhou; and the Chongqing-Chengdu megacity »

cluster, with a geographic footprint almost the size as Austria. Many of these megacity clusters have a GDP approaching US$2 trillion—that's almost the same as that of India.

Of course, India is witnessing the rise of its own megacities in Mumbai and the Delhi Capital Region. Then, to the western side of Asia, Greater Tehran is absorbing one third of the Iranian population, while in the Middle East and North Africa, most of Egypt's 80 million-plus people live in the corridor between Cairo and Alexandria, and a string of city states is forming in the Gulf. Heading into sub-Saharan Africa, the continent's largest city and Nigeria's commercial hub, Lagos, has plans for a rail network that will make it the anchor of a vast Atlantic coastal corridor, stretching across Benin, Togo and Ghana, to the Ivory Coast. In effect, these countries are suburbs of Lagos.

In a megacity world, countries can be suburbs of cities—a reality that companies with expansionary ambitions should keep in mind. In such a world, corporate growth strategies should focus on megacities and the clusters they form, rather than on national borders, which promise to become increasingly obsolete as connectivity reshapes the way we do business.



4. Megacity Tiers

Tokyo is not the same as Lagos and Dubai is not the same as Lahore. Megacities fall into multiple tiers, with different business opportunities emerging at each level.

There are tiers within the 50 megacities that I am envisioning. The first tier includes the six most connected cities: New York and London, Tokyo and Hong Kong, Singapore and Dubai. With Singapore very much a first-world country today, Dubai is really the first new emerging market city to make it onto that list. The second tier cities are also highly connected, they just don't have the highest degree of infrastructure quality. This is where cities such as Istanbul, Sao Paolo, Mexico City and Mumbai fit into the picture. Then you have a third tier, which includes cities that are more regional and not all that developed, such as Cairo, Manila and Jakarta. Finally, there is a fourth tier that includes Lagos as well as cities like Karachi. These are megacities but they're backwaters.

> In a megacity world, countries can be suburbs of cities.

In the corporate context, different benefits exist at different levels. Top tier cities offer the highest standards of infrastructure and connectivity, and can potentially open the door to global opportunity. However, these cities can be unforgiving or even prohibiting towards small firms or newcomers. Companies seeking to succeed in tier one cities therefore, must have what it takes to survive at the top, and must be able to live up to the requirements and standards demanded by the world's most connected cities.

For their part, second and third tier cities may be less connected and more regional in their influence, but they offer clear opportunities for infrastructure development projects as well as greater flexibility and, potentially, greater rewards. Operating in such cities, however, often requires more in-depth local knowledge and issues such as corruption and geopolitical uncertainty can be more pronounced.



5. Competition

Megacities don't compete, they collaborate. Connectivity between cities is a positive sum game with cooperation evident amongst the top global players. Dubai, for instance, is not supposed to be replacing London or Singapore. The fact is, all three reap the mutual benefits of greater connectivity with each other.

Still on the topic of Dubai, consider where the foreign investment is coming from. It's coming from the emirate's peers in top tier global cities. So, to join that league is not to compete, it's to share with them.

Cities also see value in collaboration because they want to be part of global value chains and they thrive on the flows of people, finance and technology that drive them. The Gauteng province of South Africa, is a case in point. The province that contains Johannesburg and the capital, Pretoria, represents just over a third of South Africa's GDP and is home to the offices of almost every multinational corporation that invests directly into South Africa or, indeed, the entire African continent.

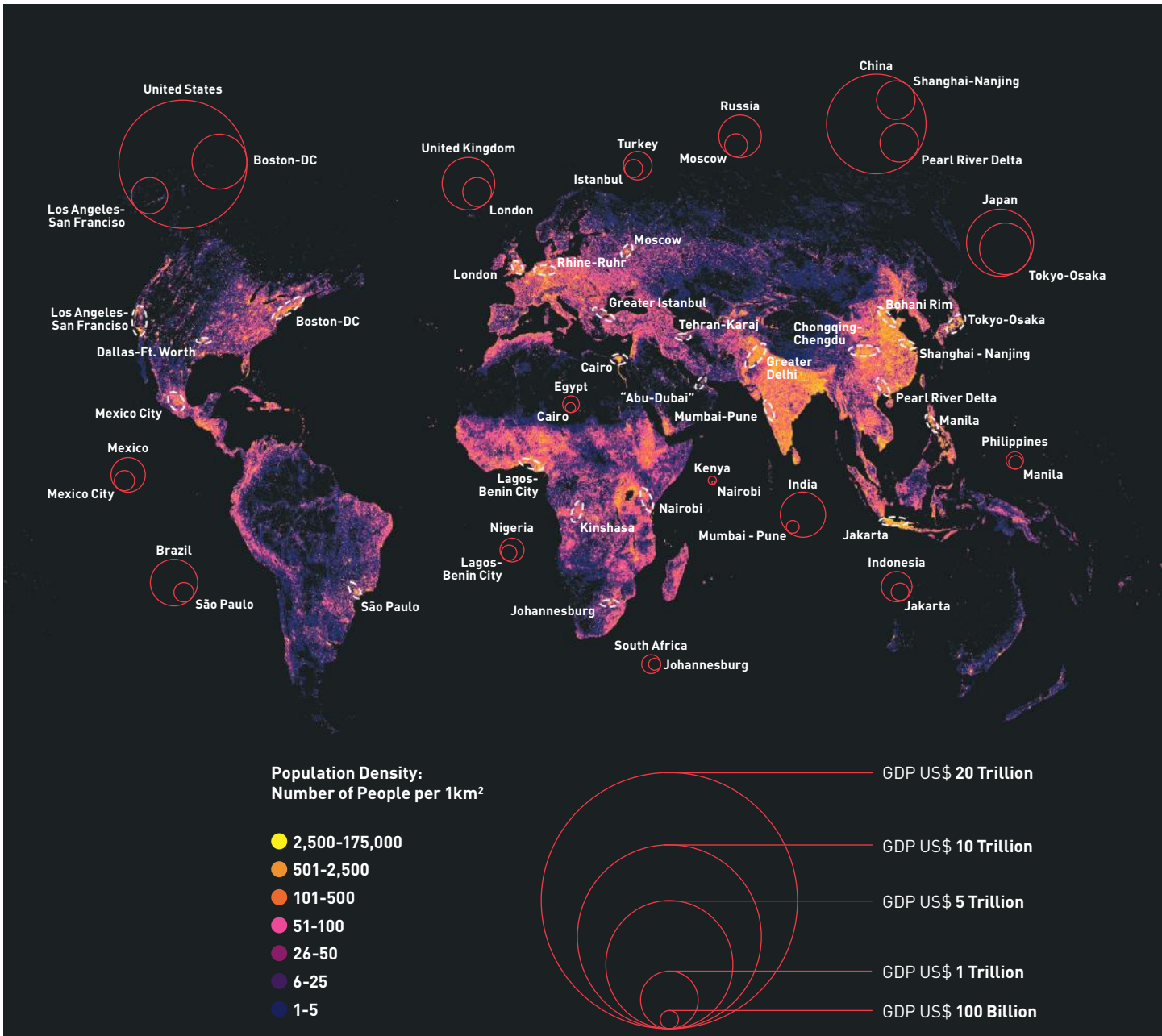
The collaborative nature of megacities means that doing business in just one of them can open the door to many more world-wide. For example, an emerging market company hoping to eventually crack the US market might find it advantageous to start from a new megacity such as Dubai.



6. Investing

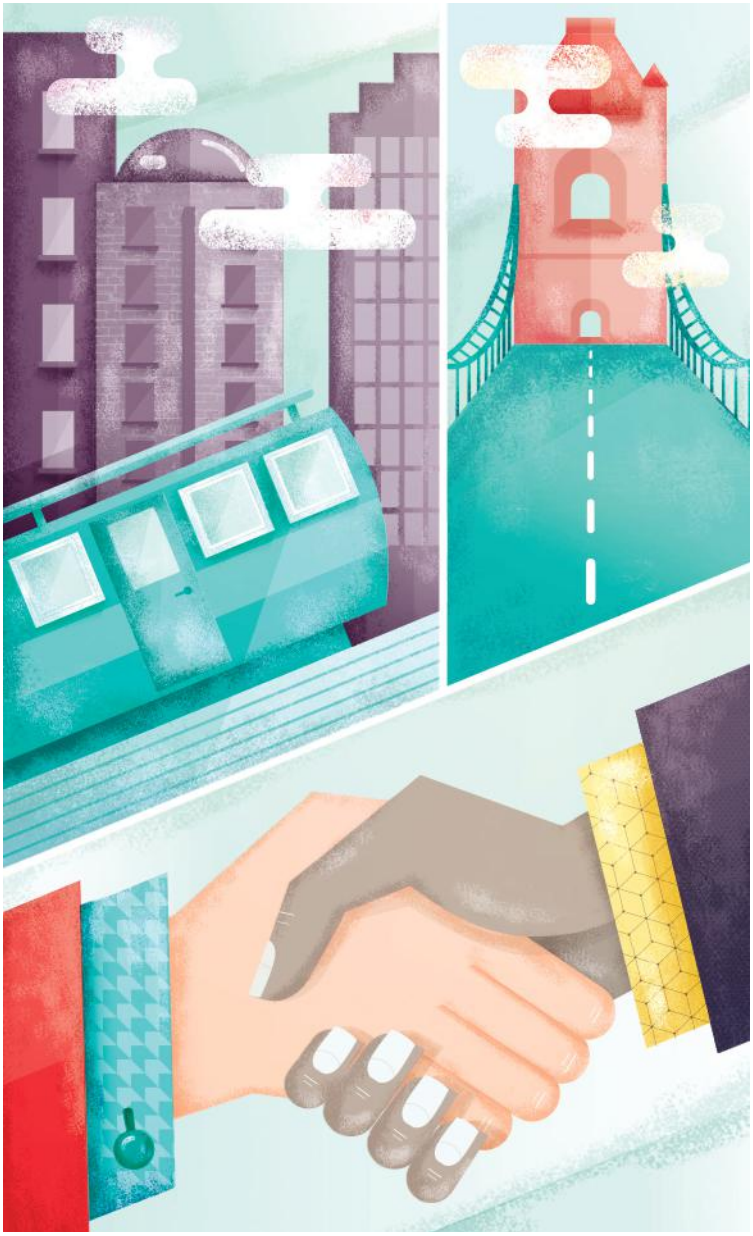
Funding the development of second-tier cities would create more even distribution of people and resources, and create more opportunities for business and economic growth.

Countries need to start plowing much more investment into second-tier cities. By doing so, they can dissipate populations, create more centers of growth, more centers of industry and commerce, and a more distributed economic pattern. That is essential. Think of a country as large as Indonesia, despite having 14,000 islands, the entire economy is based on one city, on one of the smallest islands. That's not a sustainable, long-term proposition. Moreover, it creates significant vulnerabilities – what if something happens to that city? The number one priority for countries that find themselves »



The Shifting Focus of Economic Activity: Megacities

Cities have become the world's dominant demographic and economic clusters. It is not population or territorial size that drives world-city status, but economic weight, proximity to zones of growth, political stability, and attractiveness for foreign capital. In other words, connectivity matters more than size. The smaller inner circles on this map represent the world's burgeoning megacities. Each of these megacities serves as a global hub and represents a large percentage of national GDP, which is indicated by the larger circles.



in that situation is to be investing far more in their other cities—and companies should consider doing the same. Investing in second-tier, and to a lesser extent, third-tier megacities that demonstrate potential can reward corporates with access to new markets and newly created centers for growth as they emerge.



7. Geopolitics

Greater connectivity between countries and regions can help foster more peaceful environments and as a result, stronger, more stable business climates.

Connectivity between cities has the potential to make the world a more peaceful place. Countries that have less stake in the system also have less to lose in disturbing it. If we look at regions of the world with dense relations across borders, we see more trade, more investment and more stability.

As one of the most obvious examples, industrial integration kicked off a process that gave rise to today's (relatively) peaceful European Union. Conversely, you can see that Russia is the least connected of the major powers in the international system, which goes a long way towards explaining the tensions surrounding the country's relationship with several nations in the West and other parts of the world today.

For its part, in North America, the lines that matter most on the map are not the US-Canada border or the US-Mexico border, but the dense network of roads, railways, pipelines, electricity grids and even water canals that are forming an integrated North American union. North America needs more connections, not more walls.

But, the real promise of connectivity lies in the postcolonial world—all those regions where borders have historically been the most arbitrary and where generations of leaders have had hostile relations with each other. In post-colonial countries, new leaders have emerged with a desire to set old differences aside.

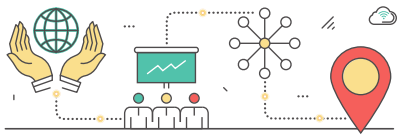
Let's take Southeast Asia, where high-speed rail networks are planned to connect Bangkok to Singapore and trade corridors from Vietnam to Myanmar. Now this region of 600 million people coordinates its agricultural resources and its industrial output. It is evolving into what I call a Pax Asiana, a peace among Southeast Asian nations.

A similar phenomenon is underway in East Africa, where a half dozen countries are investing in railways and multimodal corridors so that landlocked countries can get their goods to market. They, too, are evolving into a Pax Africana.

One region we know could especially use this kind of thinking is the Middle East. In fact, the nearly 400 million people of the Arab world are almost entirely urbanized. In general, as societies and as cities, they are either water rich or water poor, energy rich or energy poor. The only way to correct these mismatches is not through more wars or the drawing of more borders, but through the development of greater connectivity, including the creation of key infrastructure such as pipelines and water canals.

Where peaceful cross-border relations and strong economic ties are fostered, promising new business opportunities that transcend sovereign frontiers are likely to emerge. Where such ties and amiable relations are not nurtured, opportunity will be limited to individual countries, or even to specific cities.

> Countries need to start plowing much more investment into second-tier cities. By doing so, they can dissipate populations and create more centers of growth.



8. Conflict

Countries are discovering that functional geography is more important than the historical divides that have perpetuated deep-rooted hostilities. If this trend continues, business opportunities could emerge in and between previously volatile environments.

Where conflict is concerned, the real test is going to be Asia. Can connectivity overcome the patterns of rivalry among the great powers of the Far East? Since the end of the Cold War, at least six major wars have been predicted for this region, but none have broken out.

Take China and Taiwan. In the 1990s, this was everyone's leading World War III scenario. But since that time, the trade and investment volumes across the straits have become so intense that last November, leaders from both sides held an historic summit to discuss eventual peaceful reunification. Even the election of a nationalist party in Taiwan, that's pro-independence, earlier this year, does not undermine this fundamental dynamic.

China and Japan have an even longer history of rivalry and have deployed their air forces and navies to show their strength in island disputes. But, in recent years, Japan has been making its largest foreign investments in China, and Chinese people make up the largest number of foreigners residing in Japan today.

Then there are the relations between China and India. The two countries have fought a major war and have three outstanding border disputes, but today India is the second largest shareholder in the Asian Infrastructure Investment Bank. They're building a trade corridor stretching from the northeast of India through Myanmar and Bangladesh »

Connectivity: Heralding the Dawn of the Metanational

Forget the multinational, we are now entering the era of the metanational: corporations that are effectively stateless. Outgrowing the multinational definition that centers on the existence of operations in multiple countries, metanationals reject the confines of geographical borders and embrace connectivity to the maximum. What was an emerging phenomenon a decade or so ago has now become commonplace, with large corporations severing the state lifelines that once served both country and company well.

Amongst the savviest metanationals, it is not unusual to find firms with legal domicile in one country, and corporate management, financial assets and administrative staff strategically placed across many more. Here, increased connectivity in the form of improved transportation links and technological advancements are making this not just a new possibility, but a new norm. And with increasing propensity, the locations of choice for these corporate giants are the world's emerging megacities.

In this context of unprecedented connectivity and rising megacities, a process of denationalization is occurring, with companies cherry picking the capacities of various locations world-wide, and drawing them into their global value chains. For corporate heavyweights such as HSBC, DHL, ExxonMobil, Unilever, BlackRock and Visa, choice of location is no longer dictated by sovereign frontiers, but by different criteria for different corporate functions: Which locations have business-friendly regulations? Which are resource abundant? Which have seamless connectivity?

With geographical constraints all but removed, the income and influence of these corporate powerhouses are growing stronger than those of many nation states. Walmart earned a huge US$486 billion in revenue last year—income that many national economies can only dream of. And the America-born retailer is just one in a long line of examples, with companies such as Apple, Microsoft and Amazon also joining the metanational ranks.

Then there's tax—a further indication of the growing separation between company and country. Some of the world's biggest corporations are directing overseas revenues into offshore holding companies incorporated in locations from Switzerland to Singapore. The result is trillions of dollars of tax-free cash. Just like the corporations themselves, this income is "stateless," with little or none of it trickling back to the national economies in which these metanationals first laid their foundations.

The Accenture example on the page that follows, illustrates the rise of one such metanational.

to southern China and their trade volume has grown from US$20 billion a decade ago to US$80 billion today.

Meanwhile, nuclear-armed India and Pakistan have fought three wars and continue to dispute Kashmir, but they're also negotiating a most-favored-nation trade agreement and want to complete a pipeline that stretches as far as Iran. Taking about Iran, wasn't it just two years ago that war seemed inevitable? Then why is every single major power rushing to do business there today?

From Iran, to China, to India, the business implications of new-found economic cooperation between regional heavyweights are significant. Even in isolation, the economic potential of each of these countries is vast. Therefore, the business opportunities which could emerge through collaboration between them are likely to be so too, provided stability endures.

I cannot guarantee that World War III will not break out. But we can definitely see why it hasn't happened yet. Even though Asia is home to the world's fastest growing militaries, these same countries are also investing billions of dollars in each other's infrastructure and supply chains. They are more interested in each other's functional geography than in their political geography—and with good reason. With conventional systems no longer fit for purpose, countries, cities and companies alike are opting for change through boundless connectivity, over an unsustainable status-quo restricted by the geographical borders of yesterday's world. All we need now is a new map.



> A process of denationalization is occurring, with companies cherry picking the capacities of various locations world-wide, and drawing them into their global value chains.

Accenture

The story of Accenture, one of the world's biggest consulting firms, illustrates the seismic shift that has occurred. Back in the 1950s when the company was nothing more than a small division of US accounting firm, Arthur Andersen, its first notable project was advising GE to install a computer at a facility in Kentucky. Several decades of growth followed and by 1989, the division had become its own organization: Andersen Consulting—the American dream epitomized.

But as it continued to grow, the American identity of Andersen Consulting became diluted, not because it began opening foreign offices but because it saw benefits such as fewer taxes, cheaper labor and laxer regulations beyond its borders. As a result, the firm set about internal restructuring to take advantage of the opportunities that existed in thriving cities outside.

By 2001, the firm had changed its name to Accenture and listed on the New York Stock Exchange. It had ceased to exist as the US multinational it once was, and had instead become a sprawling network of franchises coordinated somewhat loosely out of a Swiss holding company. Accenture then incorporated in tax-free Bermuda before re-domiciling to low-tax Ireland in 2009.

Seven years on, the consulting giant's 373,000 employees can be found in more than 200 cities in 55 countries across multiple continents. Yet staff don't overstay their welcome. Accenture's HR department ensures well-timed placements in order to avoid the need to go through the laborious process of securing residency status for employees. Consultants are parachuted into project locations but usually report to regional (often low-tax) hubs, such as Prague and Dubai.

Accenture and the many other metanationals now shaping global systems are building success on connectivity and challenging the definition of global superpower. For stateless companies, there is always another place to go, where profit and opportunity are more plentiful, and conditions more attractive. This belief has helped agile and smart companies overtake their more cumbersome predecessors. And in a world where agility, smartness and connectivity appear to know no boundaries, the question is, what's next? Time will tell, but consider this: it might not be long before metanationals trade terrestrial restraints for the power of the cloud.