GEORGIE FROST:
- Thirty years ago, Francis Fukuyama released his book, *The End of History*. Much has happened in that time that serves to disprove his notion that Western liberal democracy is our final form of human government. We’ve witnessed a series of political and geopolitical tensions, particularly over the last decade from Brexit, Trump’s tariffs, and the refugee crisis, to the Ukraine conflict, and Black Lives Matter. Our current trajectory has business concerned. What will the world look like in 2030 and how can businesses prepare? I’m Georgie Frost, and this is The So What from BCG.

NIKOLAUS LANG:
- There is a high likelihood that we will have a stalemate in Ukraine that will continue on for several years. In parallel, I think that triggers a certain tri-polarization of the world. We see it already now. I think the West has a clear point of view. China has a clear point of view. And we see a large group of other countries who say, “Well, I don’t want to be in this situation. I want to stay neutral.”

And that started immediately after World War II. Even during World War II, with the Bretton Woods Conference in 1944, there was a system laid out that really determined the world until the 2010s, and we had a system around United Nations, World Bank, IMF, WTO, and you saw more and more countries kind of focusing on these institutions, focusing on the related world order.

And then in the 2010s, starting with the Great Financial Depression, but also then the Euro crisis, the refugee crisis, Brexit, the Trump administration and it’s related to trade policies, we’ve seen a rapid change. Just building on what you said, I think when Francis Fukuyama said, “It’s the end of history,” I think we are ahead of a new type of history, which is going towards a world that is less flat and more fragmented.

GEORGIE FROST:
- A world that is less flat.

NIKOLAUS LANG:
- Well, the logic was that in the past, people said, well, we had a world that was kind of characterized by boundaries and frontiers, and the Iron Curtain was I think, the best example of this. And when that disappeared, people said, well, we do not have any boundaries, anymore. We don’t have any frontiers anymore. And that’s what people described as a flat world in comparison to a world where you have mountains and boundaries and restrictions going on.
GEORGIE FROST:
- So where are we now? You've lived and worked in 30 countries. How does it differ across the globe... sentiment?

NIKOLAUS LANG:
- Well, I think what you feel when you are traveling the world now versus maybe 10 or 20 years ago, is that people are much more aware of different business models and different societal models around the world. And I think again, while in the 1990s there was maybe the wrong belief that Western democracy, capitalism, free trade, would be the paramount business paradigm, we have today, various options of societies, various option of business models where what we see is a fragmentation, I think, of the world in which we are.

GEORGIE FROST:
- Do you predict that this trajectory, this path that we are on, these tensions that we are seeing, will continue? We've picked 2030, we could pick beyond that, but why not stick with 2030? What will it look like?

NIKOLAUS LANG:
- Yeah, well, no one has a crystal ball, but if you don't have a crystal ball, a good tool to think about the future is to think in scenarios. With a lot of business leaders in the last year, notably after the invasion in Ukraine, I've talked and thought through what could the future look like. If I may summarize these, whatever 200 discussions I've had over the last 12 months, you see four potential scenarios or four potential images of the future.

I think there is a first scenario which people would describe as back to the future, which is a scenario that is really hoping that we will end up in a world we had it 20 years ago, meaning free trade, global institutions, well-working capitalist, Western values dominating. That's one scenario.

The other extreme, there is a scenario of saying, oh, we are already in a war in Ukraine and potentially there might be a war in Indo-Pacific coming on. And we'll see a global escalation around the world with several hotspots and several, let's say conflict zones, which is of course, I would say the most pessimistic scenario.

And then there is in the middle, there are two scenarios which on one side picks up on the war in Ukraine and based the fact of saying, "Well, this is likely to become a frozen conflict, what we are seeing in Korea for 70 years, and this frozen conflict will lead to some kind of division demarcation line. And while maybe the hot conflict is over, there will be a continuous instability, politically speaking, economically speaking."

And then there's a fourth scenario, which is what people call the tri-polar world, where you have three blocks where you have a Western block with the US and Europe and Japan and Australia. You have an Eastern block with China, with or without Russia and a few other countries. And then you have a third block of countries that say, "Well, we won't be aligned with any of these two blocks." It's a little bit like the movement of the non aligned in the 1950s and where you have countries like India, like Indonesia, large portions of the Middle East will say, "Well, we'd like to be neutral between those two blocks."

So I think that's a bit the four scenarios, and depending on which scenario you're in as a business leader, you need to think about how do I organize my assets? How do I organize my supply chain? How do I organize my offerings?

GEORGIE FROST:
- Of the four that you've spoken about, the back to the future, the global escalation, the tri-polar competition, and the stalemate, what are the most likely, and
does it depend on, I suppose, where you are in the world?

NIKOLAUS LANG:
- Well, Georgie, let me disagree on this one. I think it doesn't depend on where you are in the world because I think, and this is something which was very interesting last year when Russia invaded Ukraine, I had many clients outside of Europe who said, "Oh, it'll be a European conflict. It won't touch us so much." Fast forward a few months, we realized that 1.6 billion people in Africa, Middle East were under hunger risk because of this conflict. Around the world we have seen inflation going up like crazy because supply chains around energy have been broken, agri-food have been broken, metal.

So I don't believe that you have the luxury of sitting on an island and saying, these scenarios don't touch me, but you are right. I think depending on where you are, these scenarios will play on a harsher or less harsh way on you. Now coming back to your question, what are the most likely scenarios? I personally think that the back to the future scenario, which is as I said, back to a liberal world, order is an optimistic scenario, unfortunately unlikely.

GEORGIE FROST:
- Why?

NIKOLAUS LANG:
- Well, because we see today big political and geopolitical blocks that do not feel comfortable with this approach. I think first and foremost, China has a political view, a geopolitical view that is different from some of the Western and democratic values that are part of the scenarios. We have a country like Russia that is completely kind of disconnected of large parts of the world and of the world's trade. So I think this scenario is very difficult for me to imagine, although it would be my preferred one, and I think a preferred one for many companies around the world.

The other extreme, the global escalation, I think is too extreme and too negative. I also hope and don't believe that this is likely to happen because despite all the kind of a graphic rhetoric we have, notably between us and China, I think both powers have understood that there is a lot of relevance in their political and especially economic ties. And a business leader once told me, "China and US is like scrambled eggs. Once eggs are scrambled, you cannot unscramble them."

So I think economically the ties are so important and so relevant for both countries that I don't believe into a global escalation scenario as well. And then the two remaining ones are the most likely ones. I think there is a high likelihood that we will have a stalemate in Ukraine that will continue on for several years. And in parallel, I think that triggers a certain tri-polarization of the world.

We see it already now. I think the West has a clear point of view. China has a clear point of view. How close the relationship to Russia will be, well needs to be proven. And we see a large group of other countries who say, "Well, look, I don't want to be in this situation. I want to stay neutral." First and foremost, India for example, but also countries like Indonesia, many African countries, many Middle Eastern countries. So I think the most likely scenarios is something with a combination of a stalemate and a tri-polar world.

GEORGIE FROST:
- When you are speaking to business leaders, how are they using this way of looking at the future? This information that you’re giving them or proposing to them?

NIKOLAUS LANG:
- Well, I think Georgie, the interesting thing is when I talk to senior business leaders, the big things that have changed is first, as I said, the basic business paradigm that used to be relevant for 30, 40 years is changing. So what they need to think about is that their planning parameters, their decision making parameters are changing. At the same time you don't know exactly how the future will look like. And I have one client who told me, he said, "Well, Nikolaus, five years ago I was preparing for one future. Now I'm preparing for three futures because I don't know which one will happen."

So I think this is something where, as we discussed, it's scenario-planning is something that is very, very relevant. Another point which you see is when COs and their teams make decisions around operating footprint around supply chains. In the past, one of the key drivers was actually cost optimization. But after years of tariffs, pandemic, and war, people realized that actually your supply chain and your operating footprint, if it wants to be resilient, need to go beyond cost and needs to take into account geopolitical risk, logistics considerations, and many dimensions like this.

GEORGIE FROST:
- What does that planning for three different scenarios entail and look like? What resources are going to... How do you know where to focus your attention?

NIKOLAUS LANG:
- Yeah. Well, again, I think even though you will need to plan for three futures, you will have a base scenario, which is your kind of reference scenario. But I think the difference you see is that people are increasingly kind of challenging their planning processes in the way of adding risk factors, of adding contingencies, of adding resilience measures. So that, I think in terms of resources, you asked resources, I think it's much more resource intensive than in the past where you were planning one future based on a relatively stable environment. But on the other side, the quality and the preparedness of companies for these shocks is much, much more advanced than it was in the past.

And let me just add one thing. I find it very interesting that companies didn't only go through war, but they also went through the pandemic. And I think both were exogenous shocks to businesses. And what boardrooms have understood is that they need to be prepared for exogenous shocks that come in a high frequency and with high amplitudes.

GEORGIE FROST:
- Do you think business has fundamentally changed in some ways because of the last decade, the last few years of COVID what we've seen and been through?

NIKOLAUS LANG:
- I don't think that business as itself has changed. And I think you have great companies in various sector, from consumer to energy to industrial goods to financial institutions. The core of the business I think hasn't changed because of geopolitics. I think what is happening is that the level of, I would say reactivity businesses need to have for exogenous shocks and the level of preparedness they need to have to be resilient has increased.

GEORGIE FROST:
- You mentioned their supply chains. What other ways do you think that your scenarios, the two most likely scenarios here, your stalemate, your tri-polar competition, how will they directly or indirectly impact on business? Because you said their countries can't sit on the sideline and think "These things won't necessarily hit me," because they probably would. But I bet there's some businesses thinking, "What does this all matter to me?"
NIKOLAUS LANG:
- Well, I think the impact of these scenarios is twofold. It's very clear. I think the first is that we see, and we have seen massive disruptions of key supply chains around the world. If you look back, what are the four most disrupted supply chains of the last two to three years? It's number one, it's energy--oil, gas, coal. Number two, it's agri food, which means cereals, wheat, and fertilizers. Number three, it's special metals and minerals like nickel, palladium, uranium. And number four are semiconductors.

So if you take those four supply chains, I think the stalemate scenario, which I described to you, is very likely to make that most of this disrupted supply chain will continue to stay disrupted. And that a lot of people are struggling to find alternatives. They need to find alternatives for energy. What have we seen? Europe has been scrambling to build up floating LNG terminals to replace Russian gas. We see that countries of Africa now are now turning to Canada or to Australia for food and cereals. We see that new mines for nickel are being looked for to kind of replace the nickel that is coming from Russia. So I personally think this supply chains will continue to be disrupted, and we are in a big surge for alternatives.

And I think that's driving inflation. And that's also one of the key challenges for companies that are sourcing this type of commodity group. That's for the stalemate scenario. For the tri-polar competition scenarios, I think you can put that as an overlay scenario. What we will see is that trade in the blocks, the Western block, the Chinese block, the third block will increase while the trade between the blocks will decrease. So we see a regionalization of global economy.

GEORGIE FROST:
- How do you think regulation will play out in 2030?

NIKOLAUS LANG:
- Well, Georgie, there are many regulations that impact us. Maybe let me just take out two because they're quite interesting. One is of course, global tariffs, and the other one is environmental protection or environmental support like what we have now with the inflation reduction act in the US. So I think on tariffs, I personally think that we will see increases of tariffs either politically or economically driven.

I am not very optimistic when it comes to resurgence of a free trade regime in the broad sense, because I think there are many kind of trading blocks that are forming, and you might have free trade zones. But among those free trade zones, I think there's still an interesting movement of tariffs coming. And one of the drivers from these tariffs is actually related to environment. And if I look at, for example, the carbon border adjustment mechanism that the EU is putting in place, we have here a combination of a tariff regime that is at the same time driven by environment protection, and therefore will of course lead to an additional hurdle for imports that are not up to the EU standards when it comes to an environmentally and ecologically sound production.

So from my point of view, regulation will be around tariff, will be around environment protection or environment promotion as we've seen it with IRA.

GEORGIE FROST:
- And how do you prepare for all those?

NIKOLAUS LANG:
- How do you prepare for all of those? I think it starts with the fact that first, it's very interesting that the companies really need to spend more time in understanding
actually the tariff landscape in which they will be operating a skillset that they didn’t have because for 20, 30 years they didn’t need to have it.

First is of course understanding about what is the landscape. And then I think second is to really look hard at what do you do in terms of changing your supply chain and changing your operating footprint to be set up in an optimal way. And again, cost optimization is one dimension, which was definitely the paramount dimension for many years. But currently I think it’s one among many other dimensions you need to take into account, which includes environmental regulation, which includes tariffs, which includes geopolitical risk. And that’s how I would say this comprehensive approach to management and global trade relations will play out.

GEORGIE FROST:
- What can you do if you haven’t started preparing? What are the steps the key areas you should focus on?

NIKOLAUS LANG:
- Well, I think there are various topics you can still address in a very meaningful way, and I think it’s not too late. I think the first thing is just coming back to what I said before, if you have disrupted supply chains, you need to invest in supply chain management. You need to build resilient supply chains. What we have seen happening very strongly is that people are moving away from long supply chains to much shorter supply chains.

So while in the 2010s, a lot of companies were exporting products from China to Europe to US already starting with COVID, the Trump tariffs, and now the war, has shown that having eight week long supply chain is very risky. So what we see is a strong movement towards nearshoring and friend-shoring.

So for the US it’s Mexico; for Europe, it’s Turkey or North Africa. I think that’s something where as a company you can really reflect on and say, OK, what are my alternative sourcing partners and where do I have them and can I have them closer to home than I used to have? I think that’s one topic.

The other topic is when you look at the tri-polar world and you are a global company, you might need to revisit the way how you run your China operations because you might need to see a certain separate setup, decoupling of your operations from your global operations, which might sound just as a legal exercise, but I think it has also profound organizational and corporate implications. So supply chain resilience and organizational agility are the two things which I would focus on if I were in the shoes of business leaders that start to adapt. Now.

GEORGIE FROST:
- Niki, thank you so much, and to you for listening. We’d love to know your thoughts. To get in contact, leave us message at TheSoWhat@bcg.com. And if you like this podcast, why not hit subscribe and leave a rating wherever you found us? It helps other people find us too.