

NO ORDINARY DISRUPTION

**THE FOUR GLOBAL FORCES
BREAKING ALL THE TRENDS**

Executive Summary

MCKINSEY
GLOBAL
INSTITUTE

CELEBRATING
25 YEARS OF
INSIGHT

25

440

Cities in emerging markets will account for nearly half of global GDP growth by 2025



By 2025, 46 of the world's 200 largest cities will be in China

2.5B

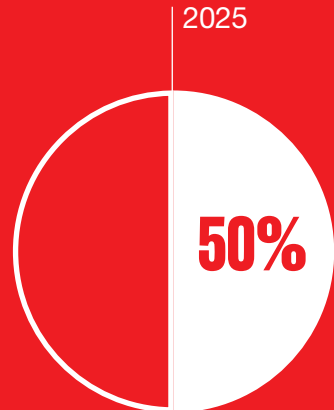
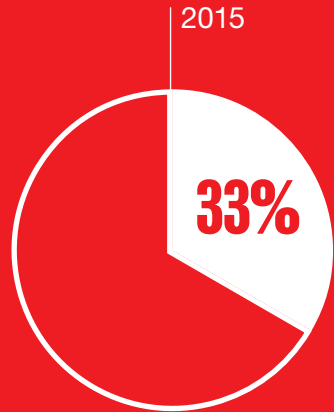
People will live in Asian cities by 2025 — that's half of all urbanites in the world

Emerging economies are becoming major forces

75%

By 2025, emerging economies will grow 75% faster than developed nations

Emerging economies are taking a larger share of the world economy



Managing a complex organization isn't easy in the best of times. It's especially difficult when the news continually reminds you that everything you thought you knew about how the world works seems to be . . . wrong. Or at least a little off. Dramatic changes come from nowhere, and then from everywhere. Major shifts can blindside even the most circumspect among us—first slowly, and then all at once. The fortunes of industries, companies, products, technologies, and even countries and cities rise and fall overnight and in completely unpredictable ways. Just consider some of the ways in which events on the ground have upended long-held assumptions, long-term projections, and basic beliefs about how things are supposed to work in the global economy:

- For years, the global retailing industry looked to American consumers, the most powerful and prolific in the world, as a proxy for the health of global shoppers. On Cyber Monday—the day after the Thanksgiving weekend—the media provided saturation coverage of the annual e-commerce binge. On November 30, 2015, Americans spent a record \$2.98 billion online.¹ However, just weeks before, a much more significant online shopping bomb exploded. November 11 (11.11) is China's Singles Day—an unofficial holiday that has rapidly become a contrived occasion for consumption. Conceived in the 1990s by single college students as an anti-Valentine's Day, it is now an occasion for conspicuous online shopping in the world's second-largest economy. On November 11, 2015, Alibaba, China's biggest e-tailer,

recorded sales of \$14.3 billion, a record for a single day anywhere in the world.²

- In October 2013, the US Energy Information Administration made a stunning announcement. The United States, until recently an energy hog struggling with declining fossil fuel production, would surpass Russia as the world's largest producer of hydrocarbons in 2013. Yes, production of natural gas and oil had been rising sharply, thanks to the advent of fracking. But the pace of growth took the agency by surprise. Just a year before, it had projected that the United States wouldn't surpass Russia until 2020. In North Dakota alone, oil production increased twelvefold between 2004 and 2014, helping to reverse a decades-long decline in production.³ Since mid-2014, US producers have been hammered by the sharp drop in oil prices, which have fallen from more than \$100 a barrel to about \$45 at the time of this edition's publication. Nonetheless, the United States continues to lead Russia in hydrocarbon production, retaining its number one global position.
- On February 19, 2014, Facebook acquired WhatsApp, a five-year-old startup, for a stunning \$19 billion. The instant-messaging app, started in mid-2009 by two former Yahoo employees, had enlisted 450 million users—more than Twitter and more than the entire population of the United States.⁴ But many Wall Street bankers weren't familiar with the company. The free mobile-messaging application had its greatest appeal—and greatest number of users—in emerging markets. Facebook was able to easily afford the massive price

thanks to its successful, swift pivot into mobile. From essentially zero in early 2012, Facebook grew its mobile advertising to about 80 percent of total advertising revenue in the fourth quarter of 2015.⁵

- On September 24, 2014, the world took in a familiar scene of jubilant scientists at a mission control center celebrating a technical achievement. But this accomplishment was different. The control center was in southern India, not southern Texas. And many of the scientists wore brightly colored saris. The team at the Indian Space Research Organization was celebrating its successful placement of a spacecraft into orbit around Mars. “We have gone beyond the boundaries of human enterprise and innovation,” Prime Minister Narendra Modi proclaimed, taking his rhetorical cues from *Star Trek*. “We have dared to reach into the unknown.” The most astonishing feature of the venture may have been its cost: a mere \$74 million. The whole effort cost less than Hollywood spent making the science-fiction film *The Martian*, and almost 90 percent less than the last US Mars Orbiter. Aloft for nearly a year, the *Mangalyaan* was the embodiment of India’s culture of frugal innovation. Using lightweight instruments, employing components adapted from other uses, and applying engineering prowess to bring down costs, India managed to become just the fourth country whose space organization successfully placed a spacecraft in Mars’s orbit—and the first country to do so on its first attempt.⁶

These big, important stories incorporate common threads that are by turns bewildering and delightful. Speed, surprise, and sudden shifts in direction in huge

global markets routinely impact the destinies of established companies and provide opportunities for new entrants.

In fact, ours is a world of near-constant discontinuity. Competitors can rise in almost complete stealth and burst upon the scene. Businesses that were protected by large and deep moats find that their defenses are easily breached. Vast new markets are conjured seemingly from nothing. Technology and globalization have accelerated and intensified the natural forces of market competition. Long-term trend lines, once reliably smooth, now more closely resemble sawtooth mountain ridges, hockey sticks (a plateau followed by a steep ascent), or the silhouette of Mount Fuji (rising steadily, then falling off). Five years is an eternity.

This new normal—a world in which China leads the globe in holiday consumption, the United States is the largest oil producer, a mobile messaging app is worth \$19 billion, and India is a leader in space exploration—presents difficult, often existential challenges to leaders of companies, organizations, cities, and countries. The formative experiences of many senior leaders came during a period that was uniquely benign and placid for the global economy. With good reason, the twenty-five years leading up to the 2008 financial crisis came to be known, in the words of economists James Stock and Mark Watson, as the “Great Moderation.”⁷⁷ Interest rates fell, helping to drive up the price of assets, whether stocks, bonds, or houses. Jobs were plentiful, and a seemingly endless supply of trained workers stood ready to fill them. When technology and trade disrupted and upended industries, most of those affected were able to find work in other sectors. As surely as night followed

day, the value of our homes and investments rose each and every year. In developed economies, parents generally assumed that their children, upon becoming adults, would be more prosperous than they were. Whatever consumers and governments couldn't afford to buy with cash, they could pay for with borrowed funds. There were blips and bumps along the road, to be sure, but by and large, the tale of the Great Moderation was one of continuity and persistent trends.

That familiar world is no more. The financial crisis of 2008, the deepest economic contraction since the Great Depression, and a host of disruptive technologies, trends, and developments have conspired to ruffle the calm. Many of the long-standing trends that made life so pleasant for investors and managers during the Great Moderation have broken decisively. The cost of capital has fallen over the past three decades, but with interest rates near zero, or in some countries actually below it, the strong downward trend is hitting its limits. After a prolonged period of falling and steady prices for natural resources, followed by a boom that seemed to never end until it did, we are left guessing as to which way prices will go, and for which commodities. The demographic surplus the world enjoyed as working-age populations grew and China joined the global trading system is likely to turn into a demographic deficit as population growth grinds to a halt and the world's labor force ages. Although inequality between countries continues to shrink, in many parts of the world, individuals—particularly those with low job skills in advanced economies—are at risk of growing up poorer than their parents.

That's just the beginning.

A radically different world is forming. The operating system of the world's economy is being rewritten as we speak. It doesn't come out in a splashy new release. It evolves, unfolds, and often explodes.

Four Great Disruptive Forces

We believe that the world is now roughly in the middle of a dramatic transition as a result of four fundamental disruptive trends. Any one of these disruptions, by itself, would probably rank among the largest economic forces the global economy has ever seen—including industrial revolutions in advanced economies. Although we all know that these disruptions are happening, most of us fail to comprehend their full speed and scale, and the second- and third-order effects that will result. Much as waves can amplify one another, these trends are gaining strength, magnitude, and influence as they interact with, coincide with, and feed upon one another. Together, they are producing monumental change.

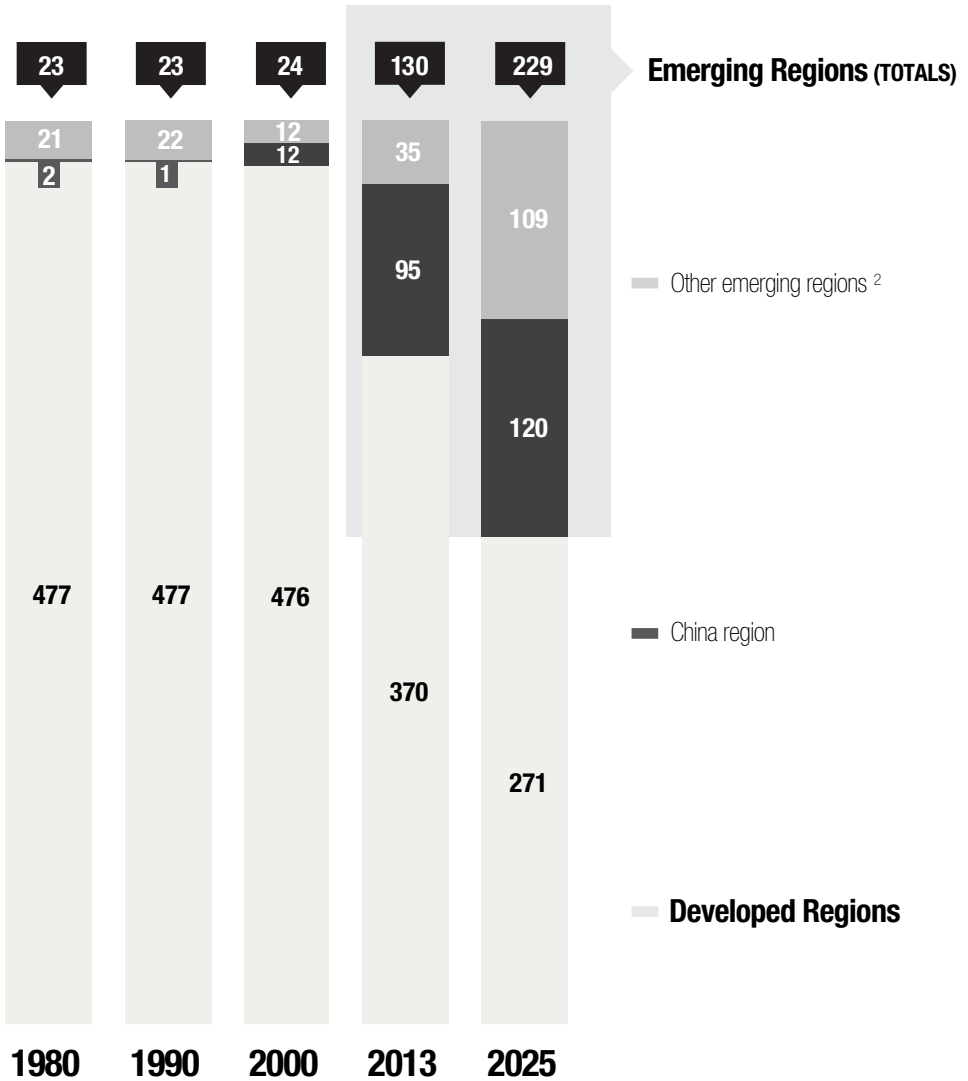
The first disruption is the shifting locus of economic activity and dynamism—to emerging markets like China and to cities within those markets. The emerging markets are going through the simultaneous industrial and urban revolutions that began in the nineteenth century in the developed world. The balance of power of the world economy is shifting east and south at a speed never before witnessed. As recently as 2000, 95 percent of the Fortune Global 500—the world's largest international companies, including Shell, Coca-Cola, IBM, Nestlé, and Airbus, to name a few—were headquartered in developed economies. By 2025, when China will be home to more large companies than either the United States or Europe,

we expect nearly half of the world's large companies—defined as those with revenues of \$1 billion or more—will come from emerging markets.⁸ Slowing economic growth in China and some other emerging markets since 2015 will not alter the shifting balance of economic power. According to our estimates, emerging markets will still account for more than 70 percent of global growth over the next decade, to 2025. “Over the years, people in our headquarters, in Frankfurt, started complaining to me, ‘We don’t see you much around here anymore,’” said Josef Ackermann, the former chief executive officer of Deutsche Bank. “Well, there was a reason why: growth has moved elsewhere—to Asia, Latin America, the Middle East.”⁹

Perhaps equally important, the locus of economic activity is shifting *within* these markets. The global urban population has been rising by an average of sixty-five million people over the last three decades, equivalent to adding seven Chicagos a year, every year.¹⁰ Nearly half of global GDP growth between 2010 and 2025 will come from 440 cities in emerging markets—95 percent of them small- and medium-sized cities that many Western executives may not even have heard of and couldn’t point to on a map.¹¹ Mumbai, Dubai, and Shanghai, yes. But also Hsinchu, in northern Taiwan, which is already the fourth-largest advanced electronics and high-tech hub in the China region.

By 2025, emerging regions are expected to be home to almost 230 companies in the Fortune Global 500, up from 130 in 2013

Evolution of the Fortune Global 500¹
Number of Fortune Global 500 companies



1 The Fortune Global 500 is an annual ranking of the top 500 companies worldwide by gross revenue in US dollars.

2 Shares of emerging regions excluding China and Latin America combined until 2000.

NOTE: Fortune Global 500 share in 2025 projected from revenue shares of countries in 2025.

SOURCE: Fortune Global 500; MGI Company Scope; McKinsey Global Institute analysis

Brazil's Santa Catarina state, halfway between São Paulo and the Uruguayan border, which is now a regional hub for electronics and vehicle manufacturing and home to billion-dollar companies such as WEG Indústrias SA. And Tianjin, a city that lies around 120 kilometers southeast of Beijing. In 2010, we estimated that the GDP of Tianjin was around \$130 billion, making it around the same size as Stockholm, the capital of Sweden. By 2025, we estimate that the GDP of Tianjin will have risen to around \$625 billion—approximately that of all of Sweden.¹²

The second disruptive force is the acceleration in the scope, scale, and economic impact of technology. Technology—from the printing press to the steam engine and the Internet—has always been a great force in overturning the status quo. The difference today is the sheer ubiquity of technology in our lives and the speed of change. In their bestseller *The Second Machine Age*, Erik Brynjolfsson and Andrew McAfee of the Massachusetts Institute of Technology dubbed the current era the “second half of the chessboard.” Brynjolfsson and McAfee give a modern twist to an old story about the power of exponential growth. Pleased with the invention of chess, a Chinese emperor offered the inventor his choice of prizes. At the outset, the inventor asked the emperor for a single grain of rice to be placed on the first square of the chessboard, two on the second square, four on the third, and eight on the fourth. The amounts doubled with each move. The first half of the chessboard was fairly uneventful. The inventor received spoons of rice, then bowls, then barrels. One version of the story has the emperor going bankrupt and being replaced by the inventor, as sixty-three doublings would have

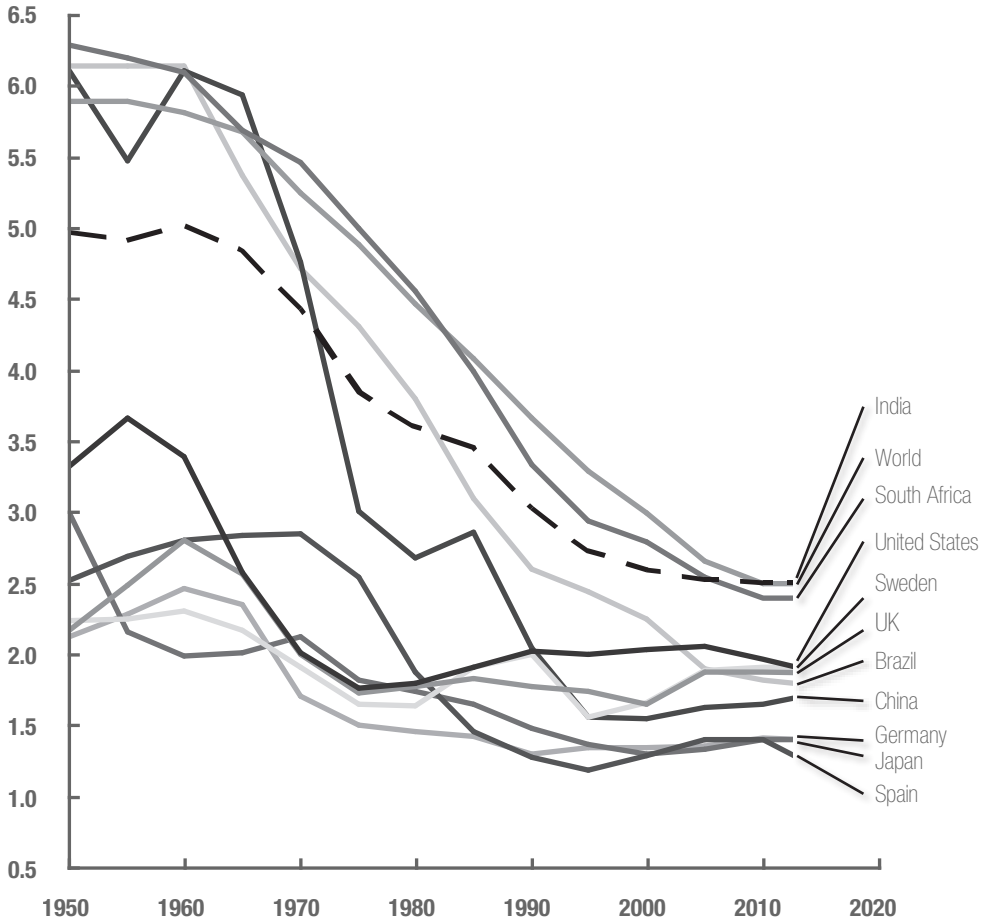
ultimately totaled eighteen million trillion grains of rice—enough to cover twice the surface area of the earth. “There have been slightly more than thirty-two doublings of performance since the first programmable computers were invented during World War II,” the futurist and computer scientist Raymond Kurzweil has noted. As fast as innovation has multiplied and spread in recent years, it is poised to change and grow at an exponential speed beyond the power of human intuition to anticipate. The pace of adoption is accelerating too. The telephone took almost fifty years before it reached fifty million connections. Radio took ten years. The iPod took five years to reach fifty million users, and Skype took just two. Faster still was the adoption of the mobile game Angry Birds Space, which took only thirty-five days to attract fifty million users—about five hundred times the speed of the adoption of the telephone. While these comparisons are not perfect, they highlight the breathtaking acceleration of our digital world.¹³

Processing power, connectivity, and adoption rate are only part of the story. Their impact is multiplied by the concomitant data revolution, which places unprecedented amounts of information in the hands of consumers and businesses alike, and the proliferation of technology-enabled business models, from online retail platforms like Alibaba to car-hailing apps like Uber. Thanks to these mutually amplifying forces, more and more people will enjoy a golden age of gadgetry, of instant communication, and of apparently boundless information. Technology offers the promise of economic progress for billions in emerging economies at a speed that would have been unimaginable without the mobile Internet. Barely twenty years ago, less than 3 percent of

the world's population had a mobile phone and less than 1 percent were on the Internet.¹⁴ Today, two-thirds of the world's population has access to a mobile phone and one-third of all humans are able to communicate on the Internet.¹⁵ What's more, they are increasingly doing so simultaneously: QQ, the instant-messaging service operated by the Chinese company Tencent, had about 860 million monthly users in the third quarter of 2015. At one peak moment in that quarter, Tencent reported that almost 240 million QQ users were messaging one other at the same time.¹⁶ Technology allows businesses to start and gain scale with stunning speed while using little capital, as WhatsApp did. Entrepreneurs and startups now frequently enjoy advantages over large, established businesses. The furious pace of technological adoption and innovation is shortening the life cycle of companies and forcing executives to make decisions and commit resources much more quickly.

The third force changing the world is demographics. Simply put, the human population is getting older. Fertility is falling, and the world's population is graying dramatically.

Fertility rates have declined globally



NOTE: Fertility rate is the average number of children a hypothetical cohort of women would have at the end of their reproductive period if they were subject during their whole lives to the fertility rates of a given period and if they were not subject to mortality. It is expressed as children per woman.

SOURCE: UN population data; McKinsey Global Institute analysis

Aging has been evident in developed economies for some time. Japan and Russia have seen their populations decline over the past few years. The demographic deficit is now spreading to China and will then sweep across Latin America. For the first time in human history, aging could mean that the planet's population plateaus. Thirty years ago, only a small share of the global population lived in the few countries with fertility rates substantially below those needed to replace each generation—2.1 children per woman. But by 2013, about 60 percent of the world's population lived in countries with fertility rates below the replacement rate.¹⁷ This is a sea change. The European Commission expects that by 2060, Germany's population will shrink by one-fifth, and the number of people of working age will fall from fifty-four million in 2010 to thirty-six million in 2060, a level that is forecast to be less than France's.¹⁸ (The European Commission used historical data to make that forecast, and the influx of more than one million refugees into Germany in 2015 from Syria, Iraq, and elsewhere may cushion that demographic decline.) China's labor force peaked in 2012, due to income-driven demographic trends. In Thailand, the fertility rate has fallen from 5 in the 1970s to 1.4 today.¹⁹ A smaller workforce will place a greater onus on productivity for driving growth and may cause us to rethink the economy's potential. Caring for large numbers of elderly people will put severe pressure on government finances. The final disruptive force is the degree to which the world is much more connected through trade and through movements in capital, people, and information—what we call “flows.” Trade and finance have long been part of the globalization story. In recent decades, a significant shift has occurred. Instead of

a series of lines connecting major trading hubs in Europe and North America, the global trading system has expanded into a complex, intricate, sprawling web. Asia is becoming the world's largest trading region. "South-south" flows between emerging markets have doubled their share of global trade over the past decade, and are now the fastest-growing type of connection.²⁰ The volume of trade between China and Africa rose from \$9 billion in 2000 to \$211 billion in 2012.²¹ Global capital flows expanded twenty-five times between 1980 and 2007. More than one billion people crossed borders in 2009, over five times the number in 1980.²² These three types of connections all paused during the global recession of 2008 and have recovered only slowly since. But the links forged by technology have marched on uninterrupted and with increasing speed, ushering in a dynamic new phase of globalization, creating unmatched opportunities, and fomenting unexpected volatility. The amount of cross-border bandwidth used has grown forty-five times larger since 2005.²³ Cross-border digital flows encompass everything from global downloads of music videos and information to intracompany traffic and e-commerce transactions on Amazon, Alibaba, and other digital platforms, which enable even tiny companies to become "micro-multinationals." Just fifteen years ago, these cross-border digital flows were almost nonexistent. Today, they exert a larger impact on global economic growth than traditional flows of goods, which had developed over centuries.

Resetting Intuition

The four disruptions gathered pace, grew in scale, and started collectively to have a material impact on the world economy around the turn of the twenty-first century. Now they are disrupting long-established patterns in virtually every market and every sector of the world economy—indeed, in every aspect of our lives. Everywhere we look, they are causing trends to break down, to break up, or simply to break. The fact that all four are happening at the same time means that our world will change radically from the one in which many of us grew up, prospered, and formed the intuitions that are so vital to our decision making.

Discontinuities such as these could be seen as bringing only doom and gloom. But this would be wrong—by a long shot. Indeed, the same forces that lifted one billion people out of extreme poverty between 1990 and 2010 will help propel another three billion people into the global middle class in the next two decades.²⁴ This improvement in the economic status of so many people would save even more lives than the eradication of smallpox, one of the greatest medical achievements of the twentieth century. The rapid spread of technology will empower individuals and consumers in unprecedented numbers. Increasingly, companies will find that technology drives the marginal cost of delivering a new product, servicing a new customer, or completing a transaction toward zero. And as more people connect to the global communications and commercial systems, the force of network effects will make those systems more valuable—and create more value for those who can tap into them. As a result, the new world will be richer, more

urbanized, more skilled, and healthier than the one it replaces. Its population will have access to powerful innovations that could address long-standing challenges, create new products and services for a growing consuming class, and present opportunities for a global entrepreneurial class. In many ways, we live in an age of recurring miracles.

These developments can play havoc with forecasts and pro forma plans that were made simply by extrapolating recent experience into the near and distant future. Many of the assumptions, tendencies, and habits that proved so successful have suddenly lost much of their resonance. We've never had more data and advice at our fingertips—literally. The iPhone, the Samsung Galaxy, or the Xiaomi MiPhone contain far more information and processing power than the original supercomputer. Yet we work in a world in which even, perhaps especially, professional forecasters are routinely caught unawares.

That's partly because intuition still underpins much of our decision making. It's human nature, and our intuition has been formed by a set of experiences and ideas about how things worked and are supposed to work. Changes were incremental and somewhat predictable. Globalization benefited the well-established and well-connected, opening up new markets with relative ease. Labor markets functioned quite reliably. Resource prices were predictable. But that's not how things are working now—and it's not how they are likely to work in the future. If we look at the world through a rearview mirror and make decisions on the basis of the intuition built on our experience, we could well be wrong. In the new world, executives, policy makers, and individuals all need to scrutinize their intuitions from first principles and

boldly reset them if necessary. This reassessment is especially true for organizations that have enjoyed great success.

We have to rethink the assumptions that drive our decisions on such crucial issues as consumption, resources, labor, capital, and competition. We shouldn't discard experience and instinct, but rather augment them and adapt them to what we can see happening right ahead of us. We must think differently about strategy, constructing business plans, approaching markets, assessing competitors, and allocating resources.

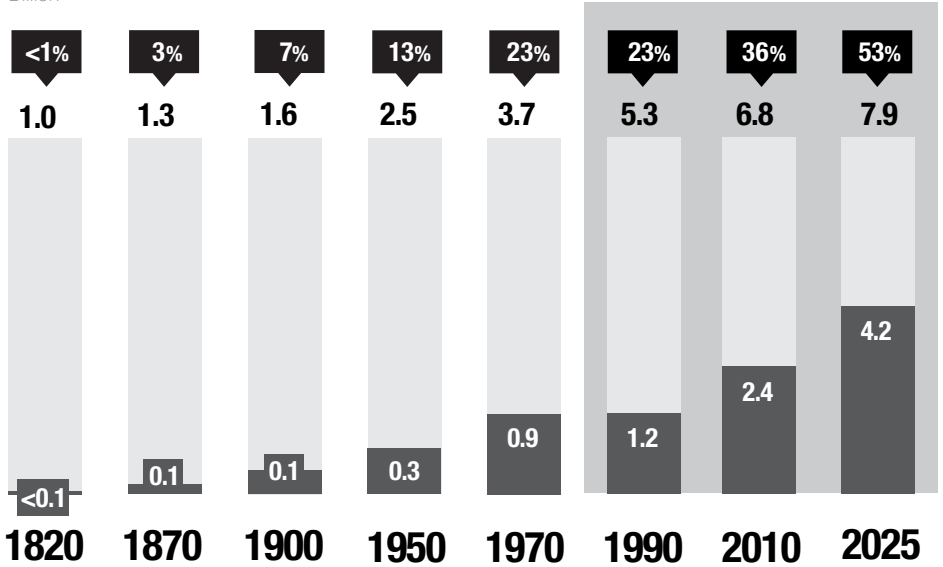
The developed world used to drive consumption. As the huge, developed economies—Japan, the United States, Europe—went, so went growth in consumer spending. No longer. Now, the large new army of middle-class consumers in the emerging world propels global spending growth. China's e-tail market, which has grown at a compounded annual rate of 110 percent since 2003, is already the world's second largest, after that of the United States. By 2020, China's e-tail market, led by Alibaba and the legions of Singles Day shoppers, could be as big as today's markets in the United States, Japan, the United Kingdom, Germany, and France combined. In its listing on the Hong Kong stock market in September 2014, Alibaba raised \$25 billion, the largest IPO in history—and another indication of the shifting geography of economic power.

Three billion people joining the consuming class between 1990 - 2025

For the first time in world history, the majority of the global population is set to become consumers

Share of population in consuming class
Consuming class

World population¹
Billion



1 Historical values for 1820 through 1990 estimated by Homi Kharas; 2010 and 2025 estimates by McKinsey Global Institute.

2 Defined as people with daily disposable income above \$10 at purchasing power parity (PPP). Population below consuming class defined as individuals with disposable income below \$10 at PPP.

SOURCE: Homi Kharas; Angus Maddison; McKinsey Global Institute Cityscope database

For global companies, especially North American and European multinationals, this new era is likely to be more complicated than the recent past. Over the last thirty years, profits of Western firms surged; global corporate net income grew 75 percent more than global GDP between 1980 and 2013, and North American and Western European companies captured more than half of the total profit pool. North American firms alone increased their posttax margins by more than 60 percent over that three-decade period. But this golden age is coming to a close as new rivals, including the likes of Alibaba, put Western incumbents on notice. Many of the new players are from emerging markets, but some businesses are surprise intruders from next door, either tech companies moving in on the incumbents' territory, or smaller enterprises that achieve scale from platforms such as Amazon, Alibaba, and the UK government's G-Cloud. For example, the market position of Unilever's OMO laundry products in Kenya isn't being challenged by the American Procter & Gamble. Rather, OMO is under attack by the detergent Toss, made by Kapa Oil Refineries, Ltd., a Nairobi-based company that has shifted from industrial to consumer products. These new competitors often play by different rules, bringing a low-cost structure, an agility, and an aggressiveness that larger Western companies struggle to match. They can also put products on the market more quickly and are willing to accept lower returns. Chinese firms already make up some 20 percent of the Fortune Global 500, while the share of US and Western European companies dropped from 76 percent in 1980 to 54 percent in 2013. Over the next decade, we expect the global corporate profit pool will continue to grow, albeit slower than the global GDP,

and the competition for a share of global profits will become much fiercer. That competition has implications not only for the companies themselves, but also for investors, whose returns are likely to be lower.²⁵

The world of commodities is also being shaken. Commodity prices fell by almost half during the twentieth century in real terms, an astonishing development given that the global population quadrupled and global economic output expanded roughly twentyfold, massively boosting demand for different resources.²⁶ Why? Technological breakthroughs opened up access to resources and increased the efficiency of extraction. Companies enjoyed lower raw materials costs. More and more households had access to relatively inexpensive and abundant energy and food. But that trend began to break in 2000. In the first ten years of the new century, the price declines of the previous one hundred years were completely erased as soaring demand from China coincided with depleted reserves of many resources. And then as suddenly as the price increases began, prices have collapsed to levels barely higher than those in the 1980s. Is this collapse just another cycle, or the signs of something more fundamental? A new resource economy appears to be taking shape: technological advances are making renewable energies ever more viable at the same time that widespread digitization is improving energy efficiency and may reduce consumption, to mention just two of the many current economic trends.

The workplace has been and will continue to be on the frontline of change and disruption. For decades the general trends were for the global labor force to rise and for more of the global labor force to be connected to the global system. What's more, thanks to a rapidly

expanding economy in emerging markets, the new hands were able to find places to work. Across the globe, employers were generally able to find employees with appropriate skills. Between 1980 and 2010, 1.1 billion adults entered the twenty- to sixty-four-year-old age bracket and joined the world's labor force.²⁷ But due to a host of demographic factors, global labor force growth will *fall* by nearly one-third by 2030.²⁸ At the same time, technology is roiling labor markets as never before. Computers, which historically replaced manual and clerical workers, such as stenographers and bank tellers, are now beginning to replace knowledge and skilled workers, like journalists and stock analysts. Automation will likely eliminate only a very small number of occupations. But it will affect numerous activities that individuals are now paid to perform. We estimate that 60 percent of occupations could have 30 percent or more of their constituent activities automated. For example, lawyers are already using text-mining techniques to read through thousands of documents collected during discovery. Even CEOs will be affected: we estimate that activities consuming more than 20 percent of their time—including analyzing reports, preparing staff assignments, and reviewing status reports—could be automated using current technologies.²⁹

And yet there will still be high demand for skilled positions in engineering, software development, and health care. Four out of ten respondents in a McKinsey survey reported that they currently couldn't find the talent they need. This shortage means that we're likely to see a strange dichotomy. By 2020, on our current trajectory, businesses could be short of 85 million

workers with college degrees or vocational training; at the same time, 95 million lower-skilled workers could be unemployed.³⁰

While it is full of opportunities, this era is deeply unsettling. And there is a great deal of work to be done—in resetting our collective intuition, in developing new approaches to high-growth markets, and in becoming more agile as a way of dealing with breaking trends. Our thinking stems from deep, proprietary quantitative research over the past 25 years by McKinsey Global Institute (MGI), the economics and business research arm of the management consulting firm McKinsey & Co. We also build on McKinsey’s work with companies and organizations around the world; meaningful conversations about the challenges and opportunities inherent in our world with corporate, government, and NGO leaders; and extensive and diverse personal experiences. One of us has lived in China for more than a quarter century; one of us has been based in Silicon Valley since 1993; and one of us has, since 1988, spent time in London, Mumbai, and Seoul. We have all been forced to continually reset our own intuitions.

Analyzing the intelligence from these diverse sources and experiences has led us to the management imperative for the coming decade. Realize that much of what we thought we knew about how the world works is wrong. Get a handle on the disruptive forces transforming the global economy. Identify the long-standing trends that are breaking. Develop the courage and foresight to clear the intellectual decks and prepare to respond. These

lessons apply as much to policy makers as to business executives. After all, urbanization, technology, and greater global connections are putting the same pressures on government that they are on business. In domains as diverse as labor, fiscal planning, trade, immigration, and resource and technology regulation, the emerging world will be exerting pressure on political, governmental, and NGO leaders and forcing them to reset their own intuitions.

That process can't begin soon enough. In all the areas of the world economy, there is an urgent imperative to adjust to new realities. Yet, for all the ingenuity, inventiveness, and imagination of the human race, we tend to be slow to adapt to change. Behavioral economists throw around terms like *recency bias* and *anchoring*. Physicists point to the powerful force of inertia. Cynical analysts might refer to “pro forma disease”—because the last three years looked a certain way, the next five years will look much the same. However we identify it, there is a powerful human tendency to want the future to look much like the recent past. On these shoals, huge corporate vessels have repeatedly foundered. Revisiting our assumptions about the world we live in—and doing nothing—will leave many of us highly vulnerable. Gaining a clear-eyed perspective on how to negotiate the changing landscape will help us prepare to succeed.

Notes

1. Adobe Digital Index, November 30, 2015, “Adobe data shows Cyber Monday largest online sales day in history with \$3 billion,” www.adobe.com/news-room/pressreleases/201511/113015AdobeDataCyberMondaySales.html.
2. “Alibaba Singles’ Day sales reach \$14.3 billion, smashing record,” *Bloomberg News*, November 11, 2015, www.bloomberg.com/news/articles/2015-11-10/why-alibaba-is-having-singles-day-in-beijing-for-first-time. Note that the etymology of Singles Day is also interesting. In Chinese, November 11 is “yao yao yao yao,” and *yao* also means “me,” so the day is all about “me.”
3. “North Dakota field production of crude oil,” Energy Information Administration, www.eia.gov.
4. Amit Chowdhry, “WhatsApp hits 500 million users,” *Forbes.com*, April 22, 2014, www.forbes.com/sites/amitchowdhry/2014/04/22/whatsapp-hits-500-million-users.
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6. Gardiner Harris, “On a shoestring, India sends orbiter to Mars on its first try,” *New York Times*, September 25, 2014.
7. James H. Stock and Mark W. Watson, “Has the business cycle changed and why?,” National Bureau of Economic Research working paper no. 9127, August 2002, www.nber.org/papers/w9127.
8. Richard Dobbs, Jaana Remes, Sven Smit, James Manyika, Jonathan Woetzel, and Yaw Agyenim-Boateng, *Urban world: The shifting global business landscape*, McKinsey Global Institute, October 2013.
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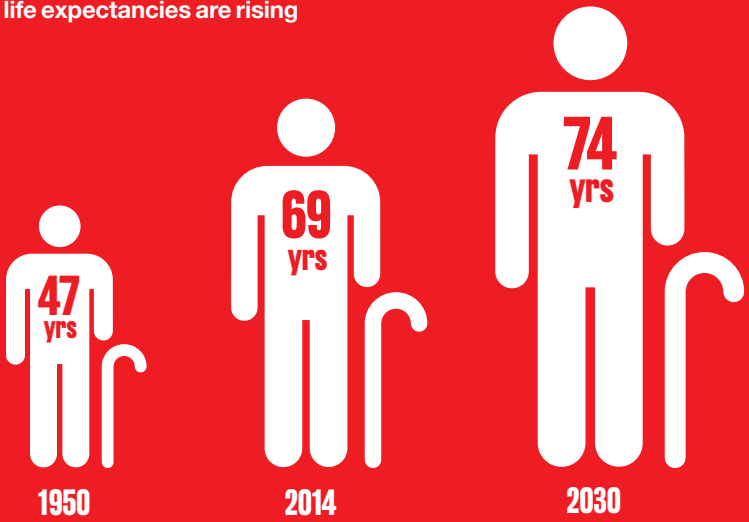
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Global life expectancies are rising



The proportion of the elderly is increasing

Advanced economies

In 2000, 14% of the population of advanced economies was made up of people 65+ years by 2050, it will be 26%

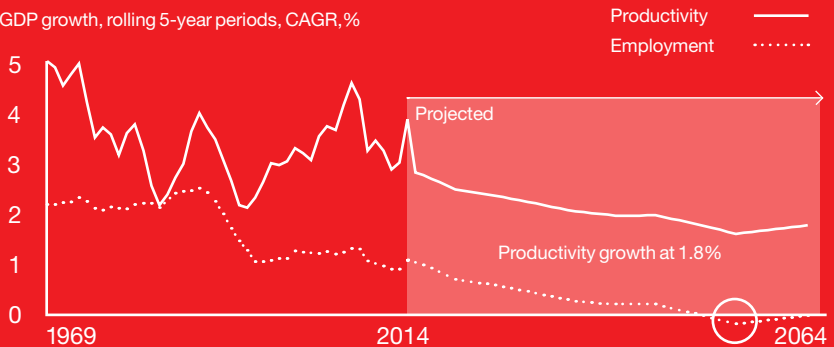
Emerging economies

In 2000, 5% of the population of emerging economies was made up of people 65+ years by 2050, it will be 14%



Without productivity increases, GDP growth will shrink dramatically

GDP growth, rolling 5-year periods, CAGR, %



McKinsey Global Institute

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