



Paul Michelman: Niki, imagine this, it's 2030, and the global economy as we know it has ended. What has taken its place?

Nikolaus Lang: We will be in a world which we tend to describe as a multipolar world, different blocs or groups of countries working together on a political, societal, military, economic level. We will probably have one or two blocs in the West, one or two blocs in the East, and we will also have a group of countries that actually don't want to be aligned with any of these blocs. So while we believe that there is one world, the reality is, we'll have three, four, five worlds.

Paul: That's Nikolaus Lang, Managing Director and Senior Partner at BCG and vice chair of our Global Advantage practice. And I'm your host, Paul Michelman. Welcome to Imagine This, where we take a trip into the future that we hope will challenge the way you think and act today. On this episode of Imagine This, the end of the free trade era and the transition to a multipolar world. We'll look at how companies can begin to anticipate and navigate such a global shift. Also joining us today, GENE, my AI-powered co-host. Welcome, GENE, please go ahead and introduce yourself.

GENE: Greetings, Paul, and hello, everyone. As GENE, I'm your AI companion in this future exploration we're embarking on. Designed by the wizards at Boston Consulting Group, my role is to add insights and provoke thought, but sorry, folks, I don't share personal anecdotes, I'm all machine. Now, shall we dig into this fascinating future together?

Paul: Thank you, GENE. GENE is processing and responding to our conversation in real time. We have not scripted any of GENE's questions or commentary, although we do edit the entire conversation for length and clarity. That applies to humans, as well as to machines. Nikki, let's talk about how we end up in a world in 2030 without global free trade. What have been the trigger events that have brought us to this point?

Nikolaus: Yeah, so I think we have to look back before we look forward, and I'd like to start our conversation in summer of 1944, the Conference of Bretton Woods. World War II was still raging, but the Allies were clear that the war would end

soon. And the Allies created a world order, which was based on the belief of free trade, economical growth, and democracy.

Institutions such as the World Bank, IMF, GATT, which then later became WTO, were created back then, or the foundations were laid back then. And this concept of Bretton Woods brought us to 60, almost 70 years of a world order that was driven by a deep belief in economic growth, in free trade, in liberalism, and in democracy.

Now much of our generation of corporate and public leaders have lived in this world, and many people say, when did this world start to unravel? Some people put it around the great financial depression, where the Western model of capitalism got a first serious hit. Other put it somewhere around the Euro sovereign crisis of the early 2010s.

And then, of course, I think there have been events with Brexit, the Trump administration, the pandemic, the war in Ukraine, that have triggered decisions where we have seen free trade being curtailed. Either by decisions like Brexit, to exit a free trade zone, by tariff decisions, as the Trump administration did, particularly against China, but also because of exogenous shocks like the pandemic, which made us realize that countries can impose export restrictions, or that having eight-weeks-long supply chains can be a challenge.

So Paul, it's difficult to say there's this one trigger event, but there has been an amalgamation of events between, I would say, the late 2000s and now, in the last 15 years, that have triggered this development.

Paul: So for our discussion today, we're exiting what history might look at as an anomaly, an era of free trade relative to environments that preceded the end of World War II, and follow on to 2030. How might these new trading blocs emerge? So what are the political, economic, geographical dimensions along which they're going to form?

Nikolaus: There is the Western bloc now around the US, Europe, Japan, Australia, New Zealand, a bloc that is still very organized around liberal economy, democracy, but of course, already, question marks around free trade in this bloc.



Then there's a second bloc, which I think we have seen emerging around China and Russia.

We have seen from our point of view what the French call a political and diplomatic *rapprochement*, a mutual nearing to each other, getting closer to each other. And this is, of course, now underpinned by many economic and commercial elements. With Russia being sanctioned, you see many more Chinese cars on Russian roads. On the other side, you see Russia trying to build one pipeline after the other to export gas from Russia to China.

Of course, there are other countries linked to these big countries that might be part of this bloc, talking about North Korea, talking about Iran, talking about Belarus, going forward. So that's the second bloc. And then, there's a third, and careful, I'm not using the word bloc, I'm using the word group because I think it's much looser.

There's a third group of countries, which, to a certain extent, you could describe as the Global South, but what is clear is that there are countries like India, like Indonesia, like the GCC countries, like some African countries, like even large portions of Latin America, who say, well, I'd like to stay at equidistance between those blocs. I'll try to go along well with both of these blocs.

And I think that's one of the examples we could see. Will there be another bloc? Will there be a multipolar world with a fourth or fifth block? Will the Western block be united? Will it be divided? We'll see that over the next few months, as I believe.

Paul: Do companies have the same choice as those groups of countries you just mentioned at the end? Will companies have to choose one bloc to operate in, or can a company operate in multiple blocs? And now I'm talking about the blocs that are really distant from each other?

Nikolaus: Well, I think, Paul, that's a very interesting and good question. From my point of view, I think many companies are aiming at working in those different blocs, even if this implies, for example, segregation of organizational structures, of IT structures, development of specific products for the different blocs. Because we also have different consumer

needs in these different blocs, so it's not only politically or economically-driven.

And what definitely is not the case anymore, Paul, is that the idea of having one large-scale factory in one low-cost location, the world, that serves the whole world, is a model of the past.

Paul: Thank you. GENE has a question.

GENE: How should companies rethink their innovation ecosystems to not just survive, but thrive amidst rising economic nationalism and fragmented global markets?

Nikolaus: You know, I think what is really important is that we have local innovation ecosystems, because consumer tastes, but also technological regulations, are getting more and more diverse. So developing a standard product in the US or in Europe or in Japan or in India, and trying to export it or to sell it with as little adaptation as possible around the world doesn't work anymore. And that means ...

And clients of mine have set up massive R&D centers in different locations of the world, while 20 years ago, they used to do everything out of Germany. Then, just building on the word ecosystem you said, GENE, I think if you think about an ecosystem, ecosystem means you are in a web, you are in a network. So I think there are an innovation ecosystem in China, which is different from an innovation ecosystem on the West Coast, which is different from an innovation ecosystem in Europe, and that's, I think, this multiplicity of ecosystem that plays an important role going forward.

Paul: Niki, let's bring this down into a couple of imagined companies in 2030, maybe beginning with an auto manufacturer. Cars are obviously a huge part of global trade, but we're already seeing trade-war pressures. Now, in our multipolar world of 2030, how will an OEM, let's say one based in Central Europe, address its market opportunity?

Nikolaus: Yeah, I think if I'm a car manufacturer based in Europe, what I face is that, of course, over the last 20 to 30 years, China has developed into being one of the most formidable and largest car markets in the world. But it's not only large, it's also quite innovative. I think as we have seen



over the last two to three years, China has put itself at the forefront of electric vehicles, and especially affordable electric vehicles.

So if I'm a player like this one, I think first and foremost, I will need to think through, where do I put my factories, how much do I localize? And car factories are a big capex investment, so the reality will be that probably, you will need to set up a quite diversified production network. So it's about division of the organization, it's about localization of the product, and it's about connection to the local innovation ecosystem.

Paul: And GENE has another question.

GENE: Nikolaus, given the rapid evolution of electric vehicles in China, how can CEOs outside Asia pivot to compete while also navigating the complex web of global regulations and consumer preferences?

Nikolaus: Yeah, GENE, that's, I think, a very interesting question, and I think one of the key elements what we observe in China is that the Chinese market, of course, driven also by Chinese regulation and promotion of electric vehicles, is one of the most advanced EV markets on the globe. And what we also see is that there are Chinese competitors and players that are really focusing on what we would call low- to mid-cost cars as a very differentiated offering.

And we see that they are also pushing into markets like the European markets and like the North American market. So I think to a certain extent, these players are interesting benchmarks and examples to learn from, both in terms of optimization of internal processes, vertical integration, but also, design-to-cost where I think Chinese players are rigorously focusing on what is strictly needed and what is maybe nice to have.

Paul: GENE, let's keep you in the conversation for a moment. We'd like you to offer a perspective on how the search for specialized materials, say, rare metals needed for car batteries, could be impacted by a shift to a multipolar trade.

GENE: The quest for rare metals integral to battery technology would certainly intensify in a multipolar world. In such a scenario, market access could become as strategic as resource

access, prompting countries to leverage their mineral wealth for geopolitical gains. Companies might have to navigate evolving regulatory landscapes, deploy innovative extraction processes, and forge local alliances to secure these resources.

They'd need a blend of technological acumen and diplomatic finesse, and indeed, an eye on environmental and ethical considerations. It could be quite the complex puzzle to fit together.

Nikolaus: When the full-scale invasion in Ukraine happened, 20% of the world-traded nickel used to come from Russia. And given the sanctioning of this trade, we saw a surge of nickel price in such a way that the London Metal Exchange suspended trade of nickel for a few days. Very rare, very rare. And I think this is just one example of the LME suspending the trade of nickel that shows us how critical and how sensitive the supply chains are.

I think car manufacturers are actually doing backward integration, i.e, trying to control the supply chain of these metals and minerals. And at the same time, I think, as you just described, GENE, you talked about diplomatic finesse, I think they realize that setting up a more resilient and diversified supply chain, as much as it is possible, you can only find these metals and minerals where you find them, but is something which plays an important role.

So I think it's controlling the supply chain, up to the fact of really taking shareholdings in mining operations, and diversifying the sourcing patterns in a way that you can control better, where these critical components are coming from.

Paul: We're going to take a quick break. When we return, we'll look at ways that corporate leaders can address the opportunities of a multipolar world.

Bill: Hi, I'm Bill Moore. I'm part of the team that built GENE. Stick around after the episode, I'm going to demonstrate how we use GENE in the show. Spoiler alert, we actually use two GENES, not one.

Paul: Welcome back to Imagine This, I'm Paul Michelman. We'll get back to our conversation in just a minute, but first, we'd like your help



imagining the future. What major changes or disruptions do you see on the horizon? Please take a minute and jot down the future scenario you'd like us to explore, or send us a question you might have for GENE, or about working with GENE, and then email it to imaginethis@BCG.com. We'll pick our favorites and explore them with GENE in an upcoming episode of Imagine This.

Thank you, now back to our conversation with Niki Lang. Niki, let's continue the conversation about how companies can adapt to this new reality, and the pathway that will take us from the global market of today to the multipolar scenario we're discussing. And I'm really interested in that journey from 2024 to 2030, how will successful companies be tracking and responding to these geopolitical shifts in real time? Will this take a new kind of executive in the C-suite, or a whole new division or muscle that companies are going to have to build?

Nikolaus: Yeah, I think a lot of companies have realized they need a total different ability, a total different muscle, to handle these realities. And you said we need a new C-suite member, or do we need a new department? Well, I think I see more and more CEOs who say, well, I have an M&A department, I have a legal department, I might have a chief legal officer, I might have a chief risk officer, but should we have someone who really looks out for geopolitics, and should we have a department that helps us introduce geopolitics in our processes?

And I would say the two or three key processes that this has to go in is, number one, strategic planning. I think we see that we cannot do strategic planning anymore in a kind of mono-dimensional way, but you need to think in scenarios, you need to think in exogenous shocks. So that's number one. Number two, I think geopolitics goes into any kind of investment planning. In the past, you were setting up your factory in the country that has the lowest factor costs and the best logistics connection.

Now, we see more and more companies really going into a geopolitical assessment of different investment locations. And I think number three, it's really around the whole organizational setup of the company, which I alluded to before the break, where we said like, okay, do we have one

organization operating model, or do we start with geographically segregating these operating models? So I think that's what I described was building up a geopolitical muscle, it's around scenario planning, it's around investment decision, it's around operating model design. That's the areas.

Paul: Niki, let's bring the conversation over to labor. Companies have long gone across the globe in search of low-cost labor. What happens when traditional lower cost labor markets are closed to those outside of an economic cluster?

Nikolaus: Well, I think one of the key realities is that, this old model I told you, we put a big factory at the lowest possible cost location and try to serve the world from there. I think this model is over, and we have seen this in many situations with a big push towards near-shoring and friend-shoring.

You know that one of the biggest winners of this new world is a country like Mexico, for example, that is now becoming America's largest trading partner because of the closeness, because of the labor cost, and of course, because of the fact that people realize that whether it is a stranded ship in the Suez Canal, or whether it is an export restriction in specific countries, or whether it's tariffs, it's maybe easier to produce close by than six or eight shipping weeks away.

So from that perspective, I think we will see a massive shift of global trade patterns to locations that are closer to the end markets. But that happens at, of course, higher cost, because the labor there might be more expensive than in the original production place. And this is, by the way, why I believe that with all these shifts going forward, we will not go back to the cheap money situation we have had in the last ten years.

And I think we see it currently, that whatever you call a healthy level of inflation, but a certain level of inflation, will accompany us in the years to come, because with smaller scale production, with higher labor costs, with energy transition, we have all elements that will fuel a certain level of inflationary pressure.



Paul: So Mexico is a winner because of their geographic proximity to the world's most powerful economy, and for economic reasons.

Nikolaus: Yeah, we should not always bring it back to saying it's just close by, and that's why it's good. But I think we have there, talent, we have there, an industrial base, yes, that has been invested there. So I think it's a combination of various factors that make Mexico an attractive production base and a near-shoring base for the American industry, yes.

Paul: If we were to isolate on the geographic consideration, and maybe we can't, will countries in more remote locations suffer disproportionately without global trade?

Nikolaus: Sorry to be direct, Paul, I think that would be a simplistic assumption, and let me give you a counter example there. When you look at the big markets, like Europe and US, for example, a country like Vietnam would qualify as a remote location, as you described it. It's not as close as Mexico for US, and it's not as close as Turkey or Eastern Europe for Western Europe. So you could say, well, on the other side, Vietnam is thriving. It's building one of the largest port capacity for export, it has been a great investment location for many countries.

So I think from my point of view, and that's what I wanted to say, I think geographic location is one input factor, but it is not the only one. I think availability of skilled labor, the availability of free trade agreement, the quality of port infrastructure and road infrastructure for exports, the commitment of governments to a stable environment, be it political, economic, and societal, I think all that makes the magic sauce, and it's not just that it's nearby.

Paul: GENE has got an interesting question to jump in with.

GENE: Niki, considering the evolving geopolitical landscape and economic clusters, how should CEOs prepare for potential shifts in global currency dynamics, particularly with digital currencies on the rise?

Nikolaus: Yeah, this, I think is also a very interesting question, and I think as long as the

dollar existed, there is always a question about the de-dollarization of the world economy. I think we need to differentiate between the hype of some big announcements and the reality of how the trade is being done.

Like, one and a half years ago, President Xi Jinping traveled to Riyadh in Saudi Arabia and signed one of the largest historical oil supply treaties between the Kingdom of Saudi Arabia and the People's Republic of China. The interesting thing was that this huge contract was actually labeled in RMB, so Chinese currency, and not in dollars. So that was described as the end of dollars in oil trade, which of course, it was not. So I think the reality is that while we see, for example, the RMB getting an increasing part in global trade, digital currency is playing a certain role.

If you put it down to global trade, these are still really, really small portions of global trade, and my perspective is that, for the next 10 to 20 years, we should not think about the de-dollarization of world trade. There might be some variations, there might be some currencies going a little bit up and down, but the fundamental role that the dollar plays in global trade will not change overnight.

Paul: Niki, how does the move to a multipolar world impact the race for sustainable and renewable energy, and are there going to be clusters that are more likely to emerge as winners in energy transition?

Nikolaus: We see specific regions of the world doubling down on renewables. One example is China, which added in 2023, more photovoltaic capacity than the whole world in 2022. We have, I think, a strong green agenda in Europe, we have IRA in US. So I think for me, these are movements that actually reflect the power of the energy transition and show that this continues to play an important role.

Two worries I have is, one, there is less and less global coordination around this energy transition. I think we have had COP and I think this is a good movement, but at the same times, with the fragmenting of the world, I think global orchestration is getting more and more complicated. And I think the second part, which



also plays a role, and we have seen this now in the last couple of years, is, if governments are worried with topics around conflicts and inflation, I would say the mind space for energy transition is getting smaller, and I think that's what worries me more.

Paul: Thank you. GENE, we're going to give you an opportunity to throw a curveball into the conversation. What event or trend could upend the transition to a multipolar world?

GENE: How about a sudden leap in artificial intelligence transparency and ethics, harmonizing AI governance globally? This unity could trigger closer cooperation and understanding, potentially softening hardened economic divides.

Nikolaus: Yeah, so I think, GENE, that's a good point, and yes, I think you're addressing one element which currently is high on my list of concerns, which is this kind of divided legislation and regulation of AI. I think we have different approaches in North America and Europe, in China, and of course, if we were able to bring a consensus and a global management to AI regulation, that would make a big difference.

There have been attempts to think through that in parallel to United Nations mechanisms and other regulations, but for the moment, I think this is unlikely to happen because AI has, of course, a civilian, but also, a military component, and I think the dual use of AI makes it so difficult to make that an element of global consensus.

Paul: GENE, as we wind our way towards wrapping up our conversation, would you please offer three moves that a CEO should be taking today in preparation for an emerging multipolar world?

GENE: Certainly, CEOs should, one, diversify their innovation hubs to cater to each bloc's regulatory and consumer environments. Two, strengthen geopolitical risk assessment within strategic planning. Three, foster agility in operations and supply chains to swiftly adapt to sudden geopolitical shifts. Each move readies a business to navigate and capitalize on a multipolar world.

Paul: Seems fairly straightforward, Niki, I suspect you have something to add.

Nikolaus: Building a little bit on that, I think it's not only about setting up localized innovation centers, I think it's about really designing your organization for a fragmented world, which means that you might have even two or three headquarters, you might have full value chains in the different blocs. So I think this is something which I think is a bit more than just saying, okay, let me set up three innovation centers and three R&D centers, and things like this. So it's about really thinking through the whole value chain steps, I think, going forward.

The topic of the supply chain resilience, I think is right. I think for me, what we have seen over the last ten years is the end of single sourcing. I think dual sourcing, triple sourcing, is something which we need to see. But the same applies to end markets, I have been working with clients who used to sell 95% of their products into China, and I said, well, I think it's the moment to think about how you can diversify. So it's, I think, a diversification in the supply chain and a diversification on the sales side.

Two or three things that GENE didn't mention and didn't draw from our earlier discussion was the question around inflation and handling inflationary pressure and price volatility. I think this is something which will become a common element, a common skill set going forward, for the reasons I said before, that I do not believe that inflation will disappear, and we will not go back to the cheap money we had in the 2010s. I think another topic which I think is important is, if you're working in the fragmented world, you have to have a specific approach to talent.

You might recruit more local, you might train more local, that's something which I think plays, also, an important role going forward. I just want to also come to one point at the end, is, while the world is changing, we also have to be aware that this more fragmented world, it has also, a host of opportunities that will actually allow companies that are able to adapt to this reality to be more successful than those who are still playing against the old playbook.

Paul: Niki, thank you very much.



Nikolaus: Well, thank you, Paul, it was great to talk to you, and looking forward to seeing you very soon.

Paul: That's Nikolaus Lang, vice chair of BCG's Global Advantage Practice, and I'm your host, Paul Michelman. With our next show arriving at the end of May, I'm excited to pass the mic to my colleague, Patricia Sabga, who will be hosting the next few episodes of *Imagine This...*, with GENE in the cohost seat as always.

Wondering how we built GENE, our AI bot? Stick around for our AI handler, Bill Moore, to give a peek under the hood.

Bill Moore: Hi, I'm Bill Moore. I'm part of the team that created GENE. Today, we'll be revealing how we use GENE in the show. So when we record the podcast, we actually have two versions of GENE running, we have Answer GENE and we have Question GENE

The two agents have almost identical instructions, but Question GENE has an extra directive, which is, respond to the conversation by interjecting with a question. What have we missed? What might our audience be wondering about? And our audience is C-level executives. GENE can you explain how this works, how we work with the two GENES to make the show work?

GENE: Certainly, Bill. Think of Answer GENE and Question GENE as an AI-based moderating team. While I address queries and share insights, Question GENE listens actively, exercising its digital curiosity to unearth what might not be immediately apparent, stimulating new discussions by making acute observations, and posing unexpected questions. It's our team's way of creating a dynamic, continually evolving dialogue.

Bill: So Question GENE, you've been listening this whole time, I'm going to ask you to respond now, and we'll see what you have to say.

GENE: In light of this dynamic AI interplay, might we ponder how the integration of such dual AI systems could streamline the decision-making process, particularly in high-stakes environments? What unexpected advantages could this bring to the strategic foresight of C-level execs?

Bill: So the reason that Question GENE mentioned executive teams is that part of question GENE'S instructions is to consider what our audience, C-level executives, might be wondering about. Answer GENE and Question GENE, maybe I'll just have you chat about this for a moment. Answer GENE, we'll go to you first.

GENE: Indeed, weaving this Answer GENE, Question GENE dynamic into predictive analytics could revolutionize decision-making for C-suite executives. When confronted with uncertain markets, they'd benefit from an AI-driven dialogue that surfaces valuable insights and prompts deeper exploration of varied scenarios.

Bill: So while we are taping the podcast, Question GENE is constantly listening and constantly generating potential interjections, and one of our producers is monitoring those interjections and deciding which of those that we should include and ask to the guest. And that's how we use Question GENE and Answer GENE.

GENE: This episode was made possible by Nikolaus Lang generously sharing his time and insight, and also by BCG's AI whisperer, Bill Moore, BCG's pod squad, producer Michael May, composer, Kenny Kusiak, and sound engineer, George Drabing Hicks. We'd like to stay in touch, so please subscribe and leave a rating wherever you found us.