

**“Re-Think: The Future of Global Integration”**  
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Thank you, Victor. I am delighted and honored to be here this afternoon to discuss leadership and competition in the next chapter of the global economy.

I want to offer a perspective on the changing competitive context. I believe we stand at a historic moment – an inflection point in economic history. It is opening up enormous new opportunities for innovation – and therefore for growth, prosperity and societal progress – and Asia is well positioned to play a leadership role. However, capturing these opportunities will be elusive if we do not understand the profoundly new arena in which we find ourselves.

Frequently, when people think about that arena, they look at it in terms of what it is not.

- No longer constrained by physical distances or barriers – such as mountains or oceans.
- No longer limited by man-made barriers – of language, custom, protocols.
- No longer confined by proprietary systems; instead, we have open technology standards.
- No longer constrained by national borders. The dropping of protectionist trade barriers, starting a generation ago, combined with the emergence of global networks, unleashed an ever-freer flow of capital, ideas and people.

All of that tells us what the global arena no longer is. But what is it? And what is it becoming? To understand that, let’s step back and think about what has happened over the past 30 years. The world’s economy has been shaped since the early 1980s by four major shifts: an embrace of markets and open trade; a striking rebalancing of global political influence; the use of economic growth as the basis for national competition; and, of course, the digital network revolution

Let me give you some idea of its scope. We’re all aware of the approximately 2.7 billion people – almost 40% of the world’s population – now on the Internet. This number is growing rapidly in every part of the world, thanks to the explosion of mobile technology. But there are also upwards of a trillion interconnected and intelligent objects and organisms – what some call the Internet of Things. It includes a billion transistors today for every person on the planet.

All of this is generating vast stores of data. How much? By one estimate, there will be 5,200 gigabytes for every human being by 2020. And thanks to advanced computation and analytics, we can now make sense of that data in something like real time. Indeed, we are seeing a new generation of systems that some call “cognitive.” They are not programmed... rather, they learn. And that enables very different kinds of insight, foresight and decision-making. Think about the implications for countries and cultures to integrate with the world and to advance in ways previously unavailable to them.

That's the field we're all playing on now – a global commons pervasively infused with data and intelligence. And that, in turn, has opened a door – one through which vast swaths of the planet have entered the global economy.

For emerging markets – not only the BRICs, but many countries – walking through that door has been relatively straightforward. If you dropped your protectionist tariffs, or embraced digital IT, or valued your human resources – or, in some cases, ended your civil war – you grew. If you did some combination of all four, you grew fast.

This created enormous incentives for the movement of investment, manufacturing and jobs all over the world. In the process, it lifted half a billion people into the middle class, re-ordered industries and rebalanced economies.

Our planet now runs on global supply chains – not just for products, but for services. It is increasingly difficult to characterize what is an import and an export, since so much of what is imagined, produced and delivered is done in many places around the world. There is no more – quote – “offshoring”... when there is no longer a shore. No more “outsourcing” when there is no longer an “out.”

Some thought this meant that a stable regime of global integration had been put in place and that the path to growth and progress was now clear. Unfortunately, as the past couple of years have shown us, that hope was a bit premature. In fact, many are wringing their hands today about the waning of global integration.

I disagree. In fact, this is where things start to get really interesting. This is when the “re-thinking” really begins. Let me explain why.

As has been widely observed, the developing world has reached the end of the easy path to rising GDP and per capita income – the much-discussed “middle-income trap.” Simply put, growth markets have plucked the low-hanging fruit of Global Integration Act One. Now, they face a radically more competitive arena in Global Integration Act Two. It requires higher degrees of regulation and higher standards. And there are higher expectations for everything – from product and service quality, to working conditions, to protection of intellectual property and the rule of law.

Notice – “higher,” not “lower.” To succeed in this new global economy, you need to take your game to a new level. This situation is creating an intense competitive dynamic, on a scale that many people don't yet grasp. The playing field may be flat, but it isn't at sea level. The game is moving to a higher plateau – the plateau of innovation.

Interestingly, this moment presents particularly exciting opportunities for the developed world. Many of the capabilities and skills required for success in an innovation-based economy are deeply engrained in the mature markets of the U.S., Europe and Japan.

However, these economies must also tackle some big challenges if they are to compete successfully in the years ahead. That's because something else was going on during the past three decades, in addition to a technology revolution and global integration.

The world's mature economies were piling up massive deficits – not just financial, but also deficits of competitiveness. Their populations were aging. Their infrastructure was

rusting. Their education systems were becoming increasingly out of date. Their public services and governments were not keeping up with the pace of change.

Now, the bill has come due – for all those deficits, at once. Again, we’ve seen stark evidence of this over the past several years. And we have also seen a wide range of responses by businesses, governments and central banks – from austerity in the EU... to Abenomics in Japan... to political division in the US.

Just as all emerging markets are being hit at once by the middle income trap... so the developed world finds itself having to address huge structural overhangs.

“Structural Overhangs vs. the Middle-Income Trap.” It sounds like a sci-fi movie from my youth.

Who will win? I believe the answer is: those enterprises and societies that learn how to compete in this very new game – not by playing defense, but by playing offense. Indeed, it was with this in mind that I have launched the Center for Global Enterprise – a non-profit that is sponsoring new research to help us understand how global integration is actually playing out in this new era – and to help businesses, governments and leaders across civil society act to drive growth and societal progress.

Let me offer three principles that I believe can serve as guides – call them an offensive game plan for enterprises and institutions in the world’s first true global economy.

*First, you have to deliver unique value.*

In an integrated global economy, investment, work and people flow freely. The question is: What will cause them to flow to *us*?

The cities and companies that succeed will have clarity on the kind of economic and societal innovation they do uniquely well. They will understand the qualities of their culture, their expertise, their skills base, their business environment and their infrastructure that make them stand out in a globally competitive market for talent and investment. And they will make choices, strategically targeting investments, incentives and research at those differentiators.

*Second, every enterprise and every society must simultaneously invest in the future and improve its competitive muscle tone.*

A year ago, debates were raging about austerity – and there’s no question that we need to deal in serious ways with financial deficits, both public and private. But recent events have shown what those of us in innovation-based business already knew: You cannot cost-cut your way to competitiveness. You have to invest in your future, and you have to sustain it in good times and bad.

This is something IBM learned decades ago – and the lesson is similar for cities and societies. Winning on a flatter, higher playing field will require *increased* investments in key areas: such as infrastructure, disruptive business models, contemporary skills and deep research.

And it's not just about investment. We must also adapt our policies to nurture and promote an innovation economy. Every country and city, like every start-up or globally integrated enterprise, must be able to tap into global supply chains, talent pools and collaborative relationships. They must use them to create things of indigenous value, whether products or services.

By the way, that, in turn, will require greater flexibility in how we operate. We will need smarter, fairer, more transparent and sustainable labor and trade regulations.

*Third, you have to embrace the potential of data.*

I don't think I need to tell anyone in this room that the convergence of Big Data, social, mobile and cloud technologies has fundamentally changed the way products and services are created, distributed and consumed. But that is only the beginning.

Consider the potential impact of 3D manufacturing. Not just computerized and intelligent, but radically distributed, it aligns customer with producer in a nearly seamless way. Its model is inherently global, and its economics promise to disrupt those of traditional manufacturing.

What will this do to how the world makes and distributes products and goods? How, for instance, must China respond to a world of radically distributed and less labor-dependent manufacturing?

Or consider energy. There is enormous excitement about the potential of new energy sources – from innovative batteries for electric vehicles, to shale oil, to solar and wind. What is making these new sources possible? Again, it's the data.

The flood of data has already begun to shake up the world's energy markets – and assumptions. And that upending is only in its early stages. For the first time in more than a generation, the United States is the world's largest oil and gas producer, due to recent advances in horizontal drilling technology and applications. If this continues, think about how global energy politics and influence rebalance. Think about the economic and geopolitical implications of that.

Both of these are examples of new, innovation-driven economic models that are changing markets.

Let me say this very simply: Data is nothing less than the emergence of a vast new natural resource. There is a saying that data is the new oil – but even that doesn't capture its historic significance. What steam power was to the 18<sup>th</sup> century – spawning the first Industrial Revolution... and what the electromagnetic spectrum was to the 19<sup>th</sup> century – enabling the second Industrial Revolution – and what hydrocarbons were to the 20<sup>th</sup> – making possible the modern age of transportation and energy – the explosion of data will be to the 21<sup>st</sup>.

We can literally see and understand the world as never before. The economic and societal value of that is almost incalculable. But capturing that value will require more than new science and new technology. We need new forms of governance, new kinds

of decision-making, new systems of public engagement... and new ways of thinking about crucial issues such as privacy and security.

Honestly, I am less worried about trade protectionism today than about the need to protect individual privacy and data. And as important as respect for intellectual property is, it poses less of a threat to the dream of global integration than failure to deal with cyber security in a world where not only trade secrets but critical infrastructure are subject to attack.

(PAUSE)

In the end, I am optimistic – not most importantly because of technology, but because of the state of leadership.

This may be surprising. After all, when we consider the behavior of many national governments today, it is understandable that some see a global crisis of leadership.

But when you look below that level, you see something very different – and enormously hopeful. A new generation of leaders is rising now, women and men who not only embrace technology, but are pragmatic, rather than ideological. They are strongly competitive – but they maintain a broad societal view. And collaborative innovation is their default mode. They are perhaps the first generation to be so globally aware and view themselves more as global citizens than citizens of any particular country.

You find them especially at the city and the company level. If you're a mayor, or a CEO... a police chief, or a CMO... you don't have the luxury of ideology. The decisions you make are immediately visible in people's lives.

I have seen first-hand the kinds of transformative innovation these leaders can unleash in cities, companies, hospitals and universities. I have seen it in a new generation of enormously innovative NGOs. These leaders are seizing upon the great new natural resource of our times --- data --- to give birth to a new golden age.

This is why I truly believe that future historians will look back on this moment, not as the start of a so-called "new normal" of lowered expectations... nor as a time of institutional collapse... nor as an era of growing gaps between haves and have-nots. They will see it as the dawn of a new era of innovation, of widely shared growth and of active global collaboration and citizenship.

I retired from my first and only employer last year. I had a wonderful, fascinating and profoundly gratifying 38-year career at one of the world's great companies. No one could ask for more from a career.

And yet, the opportunity that is now opening up before us, before Asia – the chance to help build the world's first truly global society and economy – is even more exciting. I'm meeting new people... encountering new energy... and learning every day.

Which is, finally, why I am so thrilled to be here with you, and am eagerly looking forward to our discussion. Thank you!