ADAPT

Five urgent global issues and implications

October 2019

pwc

Introduction

In 2013, PwC identified the **Megatrends** and they have transformed our world even faster than we predicted. We believe this is due to the interaction between the trends which has turbocharged the speed and pervasiveness of change.

This paper takes the **Megatrends** as a given and is focused on the second order effects they are causing which have an immediate impact on decision making today.

A	D	A	P	T
Asymmetry Increasing wealth disparity and the erosion of the middle class.	**Disruption** The speed, scale and pervasive nature of technological advances.	**Age** Demographic pressure on business, social institutions and economies.	**Populism** Breakdown in global consensus and a fracturing world, with growing nationalism.	**Trust** Declining confidence in the institutions that underpin society.

Many of the implications identified in the ADAPT framework overlap; this is to be expected because the five issues form a mutually-reinforcing system. We are talking about intersections, collisions and magnifiers.

While you could interrogate ADAPT and emerge feeling overwhelmed, we see huge opportunities in these challenges. Not least, the opportunity to reframe the way you see the world and take action to drive towards a positive outcome for yourself, your organisation and the society of which you are a part.

We hope you are similarly inspired by the potential, and that you will join us in acting upon it.

The Global Strategy and Leadership Team, PwC

Asymmetry

Increasing wealth disparity and the erosion of the middle class

Global wealth disparity has reached such a significant level that 50% of the world's wealth is now held by 1% of the population[1]. Within this, there is a significant concentration in circa 2,000 individuals with more than $1bn[1] and the number of billionaires continues to rise – particularly in Asia – and this is a trend we expect to continue.

At the same time we are experiencing an erosion of the middle class in both developed and developing economies, driven predominantly by two trends: technology replacing jobs and a lack of investment in innovation to create new jobs.

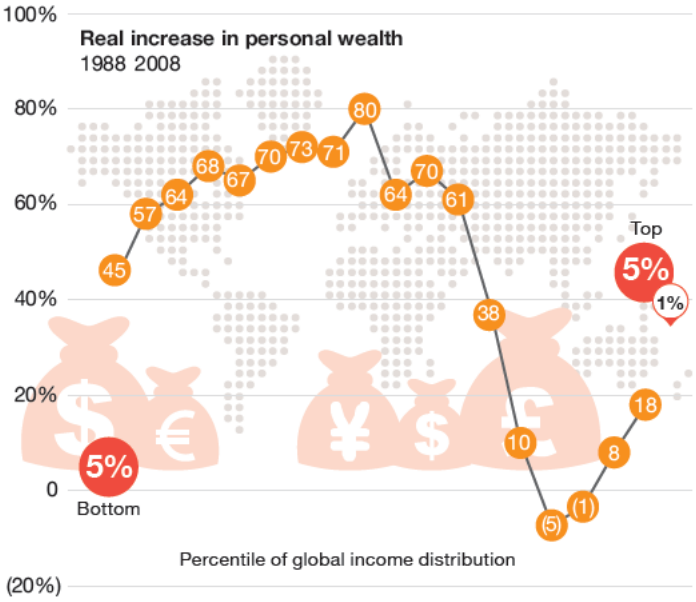
The middle class is growing faster than its wealth: adult population in this group is predicted to grow by 22.2% by 2022, while its wealth only increased by 20.4%[2].

Implications:

- Disparities in opportunity will grow, with a likely decline in social mobility.
- Regional disadvantage is at risk of getting larger (within and between countries).
- Traditional sources of money will decline.
- The number and relative importance of private businesses will increase.
- Combined with disruption, capital markets will decline in importance.
- Technological capability will create greater disparity.
- The tax base will shrink and there will be increased demands on welfare.
- Society and governments will increase scrutiny on compensation practices.
- Governments are likely to invest in job-creating industries and position State Owned Enterprises for job growth.
- Consumption will bifurcate between luxury and low-end.

Global personal wealth by income

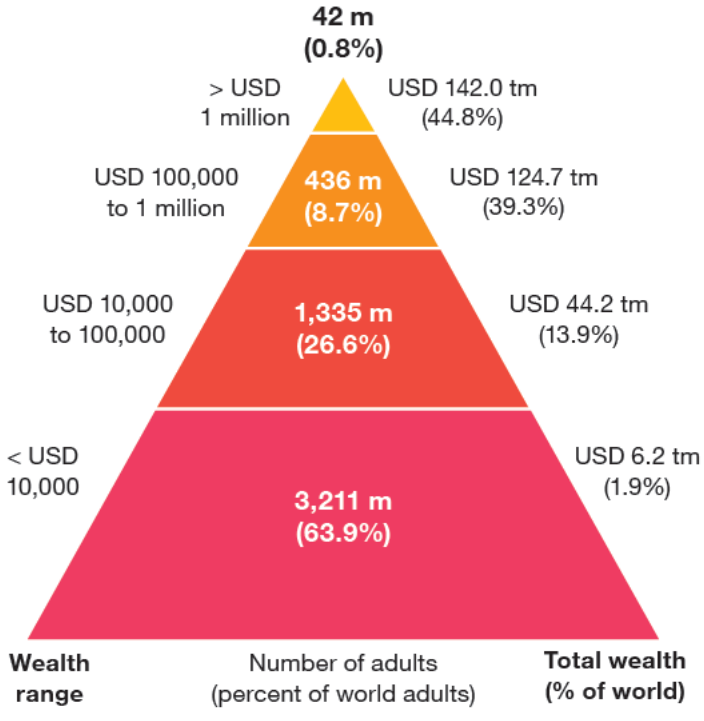
Households in the 75th to 85th percentile were scarcely better off economically in 2008 than they had been 20 years before.



Source: Branko Milanovic, 'Global Income Inequality by the Numbers: In History and Now', World Bank, Policy Research Working Paper 6259, Nov. 2012, http://documents.worldbank.org/curated/en/959251468176687085/pdf/wps6259.pdf; data points interpreted from Figure 4.

The global wealth pyramid

2018



Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2018

[1]Credit Suisse Global Wealth Databook 2017

[2]Credit Suisse Global Wealth Databook 2017 (middle class is defined as a wealth segment of $10K-100K)

Disruption

The speed, scale and pervasive nature of technological advances

The proliferation and impact of breakthrough technologies – ranging from artificial intelligence and robotics to augmented reality and blockchain – are occurring, and at a faster rate than ever anticipated. Moreover, these new technologies are leading to the creation of new business models, especially for startups unencumbered by the infrastructure of the previous century. Once new business models are developed, they are often applied across industries, leading to the blurring of traditional boundaries (e.g. Amazon, Tencent).

As new, technology-driven models transform industries, capital replaces people and we estimate 30% of UK jobs, 38% of US jobs, 35% of German jobs and 21% of Japanese jobs could be at risk of automation by the early 2030s[1].

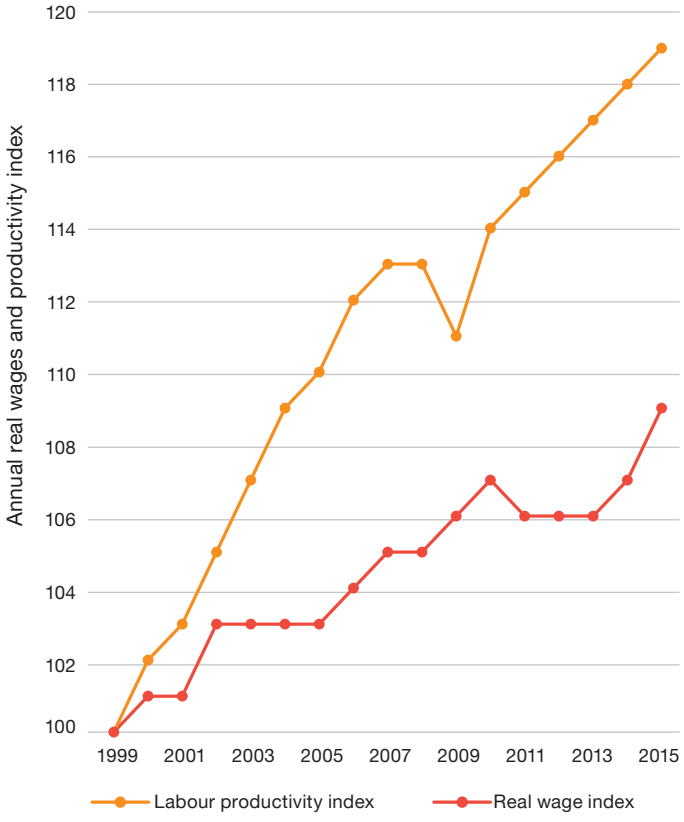
The social and political implications of this transformation are as vast as the business implications for industry incumbents: economies literally will not be able to afford themselves as tax bases erode and the jobless can no longer consume goods without some form of income.

Implications:

- Changing market dynamics and continuous adaptation of business models.
- Digital transformation and speed of execution will be a survival requirement for most organisations.
- Organisations will fail as they are disrupted by others.
- Massive loss of work and transformation of work will lead to regional shifts as industry sectors are disrupted.
- Localisation of business will be a likely response to job losses.
- There will be a continuous change in the relationship between people and technology.
- Technology capital will increasingly be a differentiator.
- Institutions will struggle to evolve and be at risk of failing.

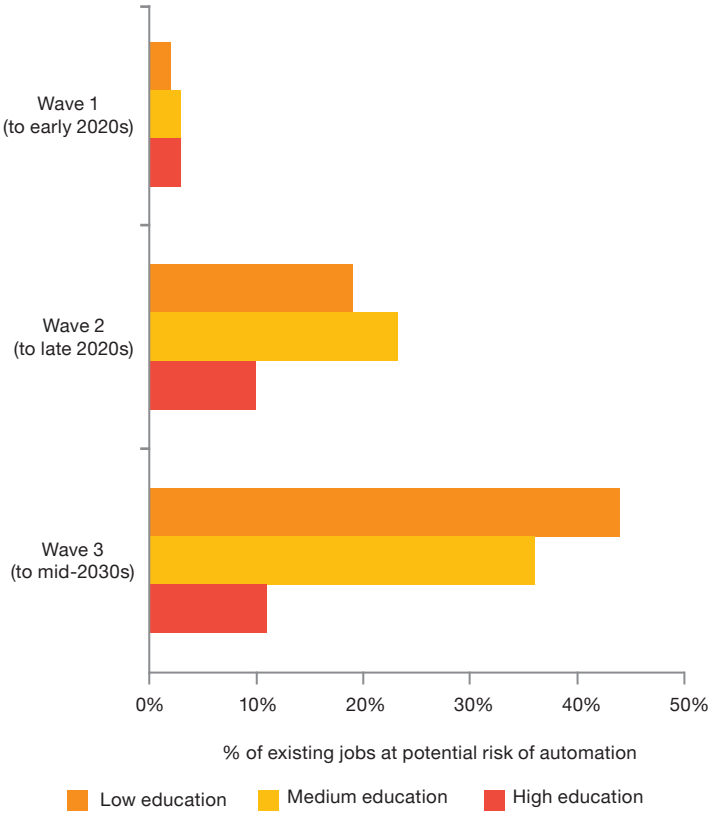
Growth in average wages and labour productivity in developed economies

(index: 1999=100)



Source: ILO Productivity vs Real Wages

Potential job automation rates by education level across waves



Source: PwC estimates based on analysis of OECD PIAAC data

[1] PwC UK Economic Outlook March 2017

Age

Demographic pressure on business, social institutions and economies

The global population is on track to reach 8.5 billion before 2030, and the average age is increasing[1]. There will be stark contrasts in the challenges faced by older versus younger nations: the average age in Japan will be 53, while in Nigeria it will be 22[1].

In the aging economies, older workers will need to work longer and learn new skills to remain relevant. Moreover, governments may seek to supplement the workforce with migrant populations and, in some cases, higher participation by women. At the same time, the numbers of the very old will increase too, putting a strain on healthcare, pensions, entitlement programmes and public debt.

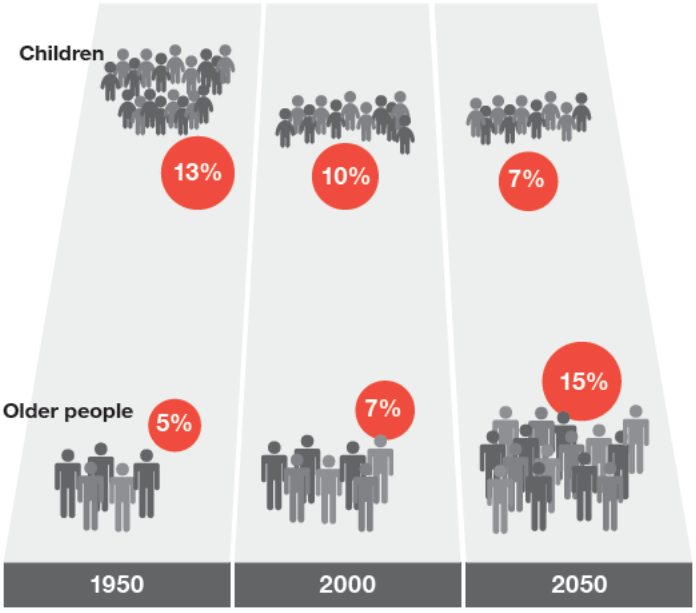
In younger economies, governments will be faced with chronically high youth unemployment – no matter what level of education has been achieved by these individuals – and, if unsuccessful in addressing these issues, they may face increasing social unrest.

Implications:

- Needs and consumption patterns will shift significantly
- There will be a capacity mismatch across countries (infrastructure, investment, organisational capability and people).
- Dramatic job creation will be needed in countries with younger populations.
- People will not be able to afford to retire and will be a significant drain on the system.
- Managing new welfare programmes in conjunction with an erosion of the tax base will put increasing pressure on governments.
- Consumption-based sectors will experience a slowdown in countries with older populations.

Young children and older people as percentage of global population

1950-2050

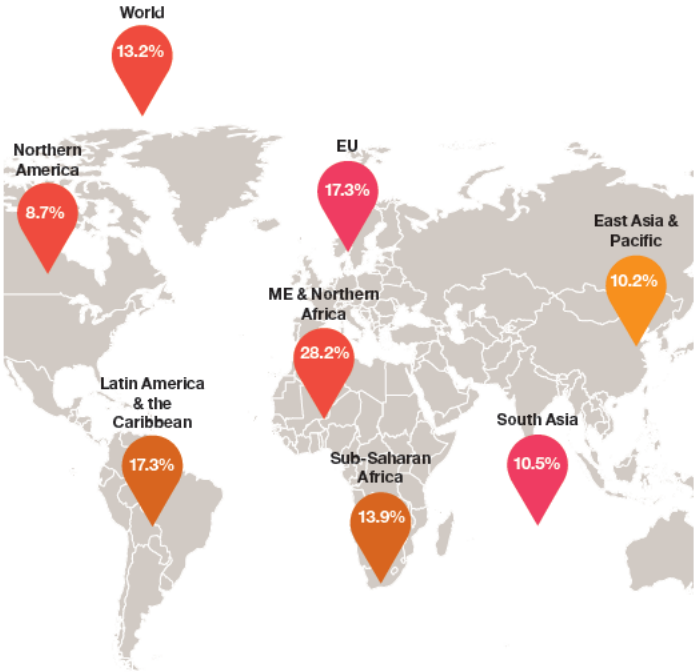


Source: From World Population Prospects 2017, by the Population Division, © 2018 United Nations. Used with the permission of the United Nations.

[1] The World Population Prospects: The 2017 Revision, Produced by the UN Department of Economic and Social Affairs

Unemployment, youth total (% of total labour force ages 15-24) (modelled ILO estimate)

2019



Source: ILO modelled estimates, January 2019

Populism

Breakdown in global consensus and a fracturing world, with growing nationalism

Economic growth has become disconnected from social progress leading many people to re-examine long-standing assumptions relating to their country's role in the world.

As people have become disillusioned, the impacts of globalisation, automation and economic shifts have led to a rise in populism. This has typically manifested itself as an opposition of a self-defined 'common people' against the elites they believe are in control of national and international governance and commerce.

In this environment, a new nationalism is taking hold, with many countries prioritising their own interests. One manifestation is in corporate tax reduction, with countries increasingly competing to lure back corporations. At the same time, changes in bilateral trade agreements – including the imposition of protectionist tariffs – will cause companies to re-think their manufacturing practices. Many governments are restricting immigration and access to work visas and increasing data-localisation requirements. Overall, there is a growing tension in cross-border business.

Implications:

- International organisations will find it harder to be effective as consensus is more difficult to build.
- People's local concerns will become more acute and crowd out other issues.
- Political decisions will become increasingly parochial.
- Societal polarisation will become more extreme.
- Countries will compete for capital and talent.
- There will be an increase in international conflict, insecurity and immigration.
- Deep embeddedness in key countries will be important for all global businesses.

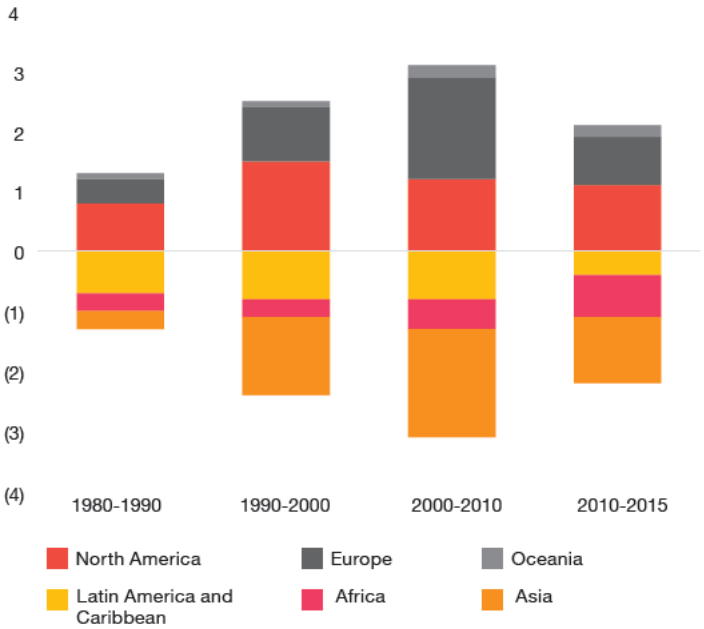
Protectionism by the G20

Number of discriminatory interventions implemented
Nov 2008 – Jun 2017

Source: The 21st Global Trade Alert Report, Centre for Economic Policy Research

Average annual net migration by region

1980-2015 (millions)



Source: UN, World Population Prospects: The 2017 Revision

Trust

Declining confidence in the institutions that underpin society

The erosion of trust in institutions began years ago as organisations and governments grew larger and became increasingly detached from the societies they represent. This trend accelerated with the financial crisis.

The general population's trust in institutions improved slightly between 2018 and 2019 based on the 26 countries surveyed by Edelman, but it's fair to say that trust is still a rare commodity.

At first, technology appeared to offer a way to build trust: large, impersonal institutions could offer something close to a personalised service or a way to interact through peer-to-peer platforms. However, as we learn more about the implications of technology, trust is increasingly eroding. Data security breaches, the manipulation of social media and the spread of fake news are all leading individuals to question the organisations responsible.

If governments, businesses and institutions can't find a way to rebuild trust, they will struggle to drive the level of change needed in such a dynamically changing world.

Implications:

- Institutions will continue to be devalued and suffer the corrosive effects of corruption.
- Concerns about personal and digital security will increase.
- The rise of tribalism and distrust of those outside own identity group will continue.
- Rising scepticism will make it harder to drive meaningful change.
- The growing debate over truth, alongside a lack of understanding of the real impact of social media on societal trust, will cause increased opportunities for misinformation.
- Governments will increase regulations to keep data in territory.
- New, technology-based institutions will be created, many based on a peer-to-peer model.

Trust index: average trust in institutions (government, business, NGO and media)

Trust (60-100)

Neutral (50-59)

Distrust (1-49)

2018 General population		2019 General population	
49	Global 26	52	Global 26
74	China	79	China
71	Indonesia	73	Indonesia
68	India	72	India
66	UAE	71	UAE
58	Singapore	62	Singapore
54	Mexico	59	Malaysia
54	The Netherlands	58	Mexico
53	Malaysia	56	Canada
49	Canada	55	Hong Kong
47	Argentina	54	The Netherlands
47	Colombia	52	Colombia
47	Spain	49	U.S.
46	Turkey	48	Australia
45	Hong Kong	46	Argentina
44	Brazil	46	Brazil
44	S. Korea	46	Italy
43	Italy	46	S. Korea
43	U.S.	45	S.Africa
41	Germany	45	Turkey
40	Australia	44	France
40	France	44	Germany
39	U.K.	43	U.K.
38	Ireland	42	Ireland
38	S.Africa	40	Spain
37	Japan	39	Japan
36	Russia	29	Russia

Source: 2019 Edelman Trust Barometer

Proportion of people worried about false information or fake news as a weapon

Percent who worry about false information or fake news being used as a weapon

55-60	61-65	66-70
France Sweden Netherlands	Canada Ireland Japan Germany	Italy Singapore S. Africa UAE U.K. Australia Hong Kong Poland Turkey

71-75	76-80
Brazil India Colombia Malaysia S. Korea U.S. China Russia	Mexico Argentina Spain Indonasia

Nearly 7 in 10 worry about false information or fake news being used as a weapon

Source: 2018 Edelman Trust Barometer

[1] 2017 Edelman Trust Barometer [2] 2018 Edelman Trust Barometer

Some immediate challenges facing nations, organisations and people as a result of ADAPT

	Example of immediate challenges at different levels of analysis		
Element of ADAPT	**Nations**	**Organisations**	**People**
Asymmetry	Growing wealth disparities and erosion of the middle class	Erosion of traditional customer base	**Wealthy:** rethinking their role in society **Everyone else:** their own and their children's future
Disruption	Redesigning in institutions to remain relevant to citizens	Digital transformation	Remaining relevant with up to date skills
Age: Older countries	Greater welfare demands and an eroding tax base	Changing customer needs	Growing old with insufficient resources for a longer life coupled with a higher cost of living
Age: Younger countries	Massive job creation in a world of shrinking jobs	Creating work and meeting the needs of young adults	Finding work
Populism	Foreign policy and finding common ground in a fractured world	Being deeply local while creating global synergies	Loss of identity
Trust	Providing security for citizens and re-establishing trust in government, business and society at large	Re-establishing trust in business in a world with increasing public: scrutiny and transparency	Personal safety, privacy and discerning truth
All aspects of ADAPT together	Building a thriving sustainable, inclusive society fast	Reimagining the business model	Rethinking what it means to be human

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