A Multipolar Business World

by Nicolas Véron

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The US is the business world's benchmark. Everywhere and increasingly business leaders speak English, have graduated an MBA, and exchange ideas by using Microsoft PowerPoint. For half a century, most key technical and managerial breakthroughs have come from America. Japan came up on the rails in the 1980s but then quickly slumped. Especially since the Clinton years and the internet revolution, the US has dominated business innovation and invention, thanks chiefly to these true crown jewels, its top universities.

However, when it comes to the relative clout of large companies, US domination is being quickly eroded. The numbers shown below are derived from the survey of the 500 biggest listed companies worldwide, carried out since the end of 2003 by the *Financial Times* (FT Global 500). These companies are ranked according to their market capitalisation at year-end exchange rates, and divided into five geographic zones according to the location of their head office (the list of course changes a bit each year). The cumulated capitalisation is calculated at the end of each year for each zone.

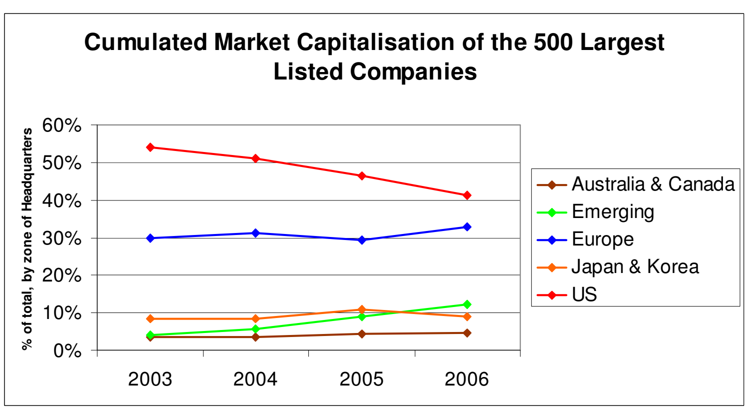
The striking trend is the rapid and continuous drop in the share of US companies in total capitalisation, even though Wall Street has flourished over this period. Despite the US retaining top spot, US companies register a fall of 13 percentage points in three years. This is not an effect of exchange rates. The euro/dollar parity in particular has remained fairly stable: 1.26 end 2003; 1.36 end 2004; 1.18 end 2005; and 1.32 end 2006. Moreover, the US still boasts the top three companies: ExxonMobil, General Electric and Microsoft. And Citigroup has been fourth since 2004 (in 2003 fourth place went to Pfizer).

Is this trend traceable to the boom in oil and commodity prices? Contrary to popular misconception, 'Big Oil' is not America's strongest point. End 2006, oil and mining groups represented 31% of the aggregate value of 'emerging' companies in the FT Global 500, 14% of European companies, but less than 9% of US companies. Oil prices, however, are not the main factor. The same ratio was 35% for the Canada/Australia zone but this zone's total share has increased only slightly.

The key driver, mirroring the relative decline of the US, is rather the surge of companies from emerging economies, which include a large number of recent listings. By the end of 2006, Gazprom had the fifth-highest capitalisation worldwide (and the first non-US one), Industrial and Commercial Bank of China was the second-ranked banking stock after Citigroup, and China Mobile was the world's biggest telecoms company. True, valuations in relatively illiquid markets such as Shanghai should be treated with caution, but this effect is minor and does not account for the trend.

And this is only the visible part of the iceberg. Adding non-listed companies (valued end 2005 by McKinsey in a study published by the *Financial Times* on 15 December 2006, and applying a 20% premium to account for stock markets' rise over 2006) takes the share of 'emerging' groups up to 23%, compared to 29% for European and only 36% for US companies. The world of business has become multipolar.

Europe's comparatively good performance seems mainly due to strong momentum towards consolidation, doubtless stimulated by the single market and the euro. In Europe, small and medium-sized businesses have difficulties accessing external capital, and this probably explains part of the continent's growth problem. But big European companies do well when it comes to asserting themselves as world 'champions' – and to defending their ranking in the face of the relative decline of transatlantic counterparts.



Source: Bruegel calculations based on FT Global 500 rankings

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