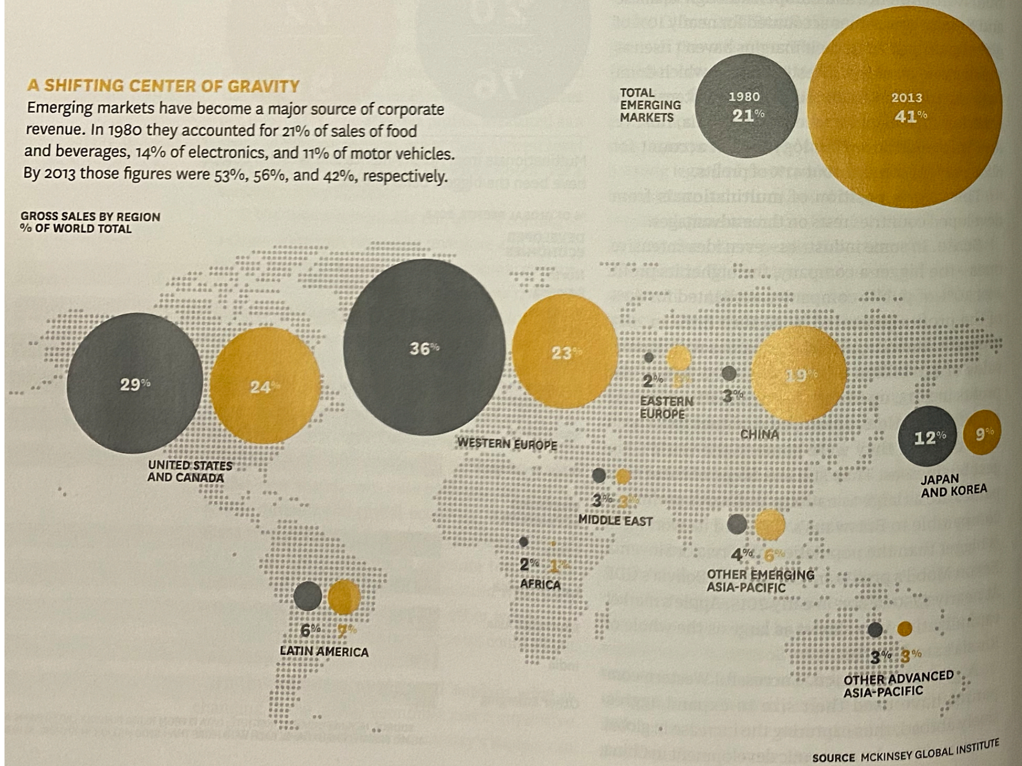
other parts of Asia, and Latin America. In 1980 just 21% of global corporate revenue came from the emerging world; by 2013 that had almost doubled, to 41%. (See the exhibit "A Shifting Center of Gravity.") In response, large Western corporations have transformed themselves from predominantly national corporations into truly global ones. GE, for example, generated \$4.8 billion in revenue outside the United States in 1980, but by 2014 that figure had climbed to about \$80 billion, more than half the company's total. The story was similar at other firms: By 2010 nearly half the revenues of the S&P 500 came from outside the United States.

Falling costs. Developed-world multinationals have exploited unprecedented opportunities for reducing costs. The biggest sources of savings have been falling labor costs and the higher productivity of both capital and labor. Greater automation has gone hand in hand with falling technology prices; since 1990 the gap between the cost of industrial robots and the cost of labor has decreased by 50% in advanced economies. Since 1980 the global workforce has grown by 1.2 billion people, most of them from emerging markets that have become more connected to the rest of the world through supply chains and migration. Falling tax rates and borrowing costs have accounted for about 15% of the total gain in net income. Since 1980 corporate tax rates have dropped by as much as half (from a high of 45% to 60%) in a range of nations, including Australia,



A SHIFTING CENTER OF GRAVITY

Emerging markets have become a major source of corporate revenue. In 1980 they accounted for 21% of sales of food and beverages, 14% of electronics, and 11% of motor vehicles. By 2013 those figures were 53%, 56%, and 42%, respectively.

SOURCE MCKINSEY GLOBAL INSTITUTE

Canada, Germany, and the United Kingdom. At the same time, the cost of borrowing has tumbled. Back in 1982 the yield on 10-year U.S. Treasury notes was nearly 15%. Today it's about 2%, and U.S. firms have seen a full percentage-point decline in interest expenses relative to revenue. Similar dynamics have been at work in Europe and Japan, where benchmark interest rates are close to zero.

So, what has changed?

GROWTH AND COSTS HAVE BOTTOMED OUT

Powered by the twin engines of a growing workforce and increasing productivity, the global economy has expanded by about 3.5% annually since 1980. In contrast, annual GDP growth averaged less than 2% in the 100 years prior to World War II. However, as populations age in the developed world and China, workforce growth is slowing and even declining in some regions. Absent a step change in productivity growth, GDP growth will fall to 2.1% globally and 1.9% in developed countries within the next 50 years.

In addition, the favorable cost drivers that Western multinationals were able to exploit have largely run their course. Interest rates are now so low in many countries that borrowing costs simply can't fall much further and might even be starting to rise. The big tax-rate decline of the past three decades also seems to have ended. Indeed, tax inversion schemes, offshoring, and the use of transfer pricing are drawing political flak in several deficit-ridden countries.

As for labor costs, wages in China and other emerging markets are rising. Rather than continuing to reap gains from labor arbitrage, companies will fight to hire skilled people for management and technical positions. New jobs require disproportionately greater skills, especially in science, engineering, and math. In China, once the main source of new workers, the demographic pressures of an aging population and falling birth rates could further increase the country's labor costs. And most other emerging markets do not yet have the high-quality rural education systems required to build a disciplined workforce.

Aging is also a big problem in the Western multinationals' home markets. One-third of today's workers in advanced countries could retire in the next decade, taking valuable skills and experience with them. In countries such as Germany, Japan, and Korea, nearly half the workers will be over the age of 55 in another 10 years, and replacing them with younger individuals would require politically challenging changes in immigration policy.

Talented people in emerging markets now have more options. The most coveted jobs used to be with Western multinationals, but that is changing. As companies from China, India, Brazil, and elsewhere in the emerging world become global firms themselves, they are closing the gap in terms of remuneration and opportunities for career growth. They tend to have young, skilled, and highly motivated workers who are willing to put in long hours or work nonroutine shifts—and some have exported that model to their foreign acquisitions.

COMPANIES IN THE EMERGING WORLD ARE CATCHING UP with Western multinationals on pay and career opportunities.

The result is an intensifying global war for talent. In a recent McKinsey survey of 1,500 global executives, fewer than one-third said that their companies' leaders have significant experience working abroad—but two-thirds said that kind of experience will be vital for top managers in five years.

EMERGING-MARKET COMPETITORS HAVE CHANGED THE RULES

There are now twice as many multinational corporations as there were in 1990—85,000 is a conservative estimate. Although two-thirds are still headquartered in advanced economies, the balance is quickly shifting. In 1990, 5% of the *Fortune* Global 500 came from emerging markets. In 2013, 26% did. By 2025, we estimate, more than 45% will.

These new competitors are growing more than twice as quickly as companies in advanced economies, both in their home markets and beyond, eroding the traditional Western advantage of scale. Although their track records for profit and performance are uneven, the most successful of these players are now as big as or bigger than competitors from the U.S. and Europe. For example, the world's three largest makers of domestic appliances as measured