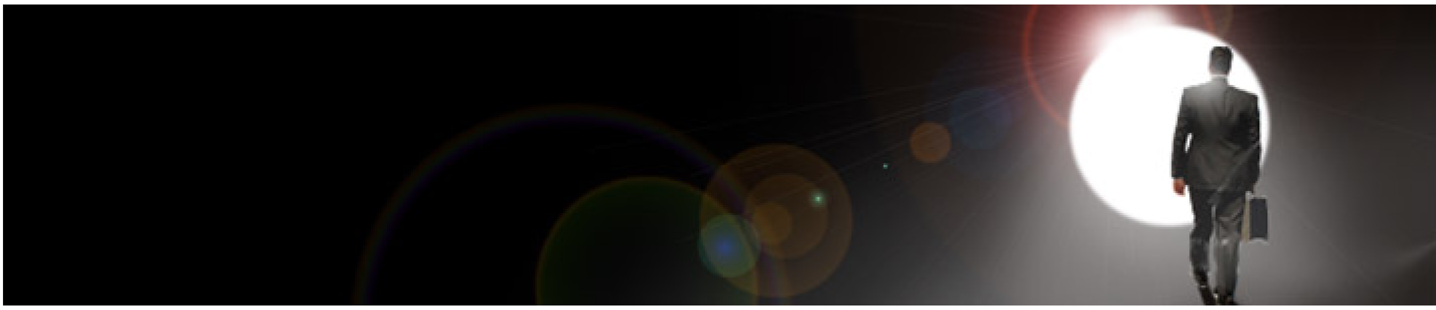

ECONOMY: LIFE AFTER A BLACK HOLE

The day after tomorrow

By Professor Stéphane Garelli - February 2009

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January 2009 and it's official. Recession is here. After the "are we, aren't we" of the past six months, the bright side is that now any doubt has gone, it's time to risk predicting the future so contingency plans can be made.

How long will it take us to get out of it and into what kind of world are we going to emerge on the other side of the recession? What will Obama bring to the table? What influence does he have on what happens in the US economy? What will kick start the economy? Will businesses increase their Asian focus? Will China and India be the saviour of the emerging markets? How will currencies play out in the next six to twelve months?

These are just some of the questions reverberating around the world currently – and the only sure answers are that nobody makes money in a recession and nobody likes it, both of which give rise to huge motivation across the board to fix it.

The road to recovery

The real signal on whether we have emerged from the black hole will come from signs of the US economy recovering. Nobody, however, not even Obama, can be expected to perform miracles. He will inherit a budget deficit in the US for this year of one thousand two hundred billion dollars – or eight percent of the GDP. The national debt is in excess of ten trillion dollars, and is increasing by 3.2 billion dollars a day. The borrowing requirements of the US next year are going to be two thousand billion dollars – a less than joyous scenario.

The dollar has taken a battering, the pound is staggering but the euro, on the other hand, is still a success story with a number of countries including Sweden, Denmark, the Baltic States and Iceland thinking about joining the party.

While bail out plans are being bandied about like lottery tickets, the success or failure of any recovery plan in the US and Europe will depend on whether people are going to take handouts and save rather than go on spending sprees which would kick start the economy. In Europe and the US, both "got it all" societies, the urge to spend may only kick in with the advent of "gotta have it" technological innovation. Developing economies such as China and India, on the other hand, are fortunate to have a hardworking, first time product middle class that is eager to buy.

This difference in consumer mentality has led to a major shift in business focus to Asia and the emerging nations, with six thousand billion dollars in foreign currency reserves staying right where there are rather than being repatriated to finance companies or banks in struggling Western nations.

Another outcome of the current crisis has been an increase in the power of politicians. This has led to considerable unease, particularly in the US and is likely to give rise to a surge in regulations.

Because crises are by definition accompanied by a "whose the culprit?" ethos, this undoubtedly comes with a pronounced risk of overkill. In the broader scheme of things, however, in the aftermath of the current disaster, increased regulation and corporate governance in the banking sector would be supported by public opinion.

Reality check – not everyone is bankrupt

Many companies are tackling the future cautiously but with a degree of optimism that appears in their Plan A/Plan B approach to 2009 budgets – where Plan A incorporates spending cuts and no wage increases until mid-2009 at which time should things not have improved, Plan B (increased unemployment and wage cuts) kicks in. Whatever the situation – everyone should have Plan B in their back pockets ready to implement if things are not looking up by mid-year.

Contrary to what one might reasonably think, there are still many companies in good shape. What is absolutely crucial now is that the flow of money from the banking sector to companies continues to happen – especially to small- and medium-sized companies - which will just collapse without guaranteed financial flows.

The light at the end of the tunnel

Sometimes, great things come out of recession. People reinvent themselves and ways of doing things. Bold ideas emerge and the brave new world to come after the black hole is likely to present a number of new job opportunities. The driver for making consumers consume and companies invest is going to be new technology. Part of this new technology is clean technology and therefore the environment.

The second enormous opportunity in a world where people retire at 65 and then live for another 30 years, will be anything to do with ageing – be it activities, products, investments or diet. The third pertains to developing a business model for the poorer nations. People joining the world economy almost inevitably cannot afford a $3000 PC and need a $100 option - something like Tata is doing for cars in India.

Several factors are key to keeping afloat. The first is ensuring that budgets for this year are rock solid. The second is that investment continues to be made judiciously, and the third that relationships with customers are maintained. And when orders start to increase, when outsourcing contracts get signed, when inventory levels decrease, there will be light at the end of the tunnel.

Professor Stéphane Garelli is Director of IMD's World Competitiveness Center. He also teaches, among other programs, on the Breakthrough Program for Senior Executives (BPSE) and the Orchestrating Winning Performance (OWP).

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