

THE COMPETITIVENESS ROADMAP: 2011 - 2050

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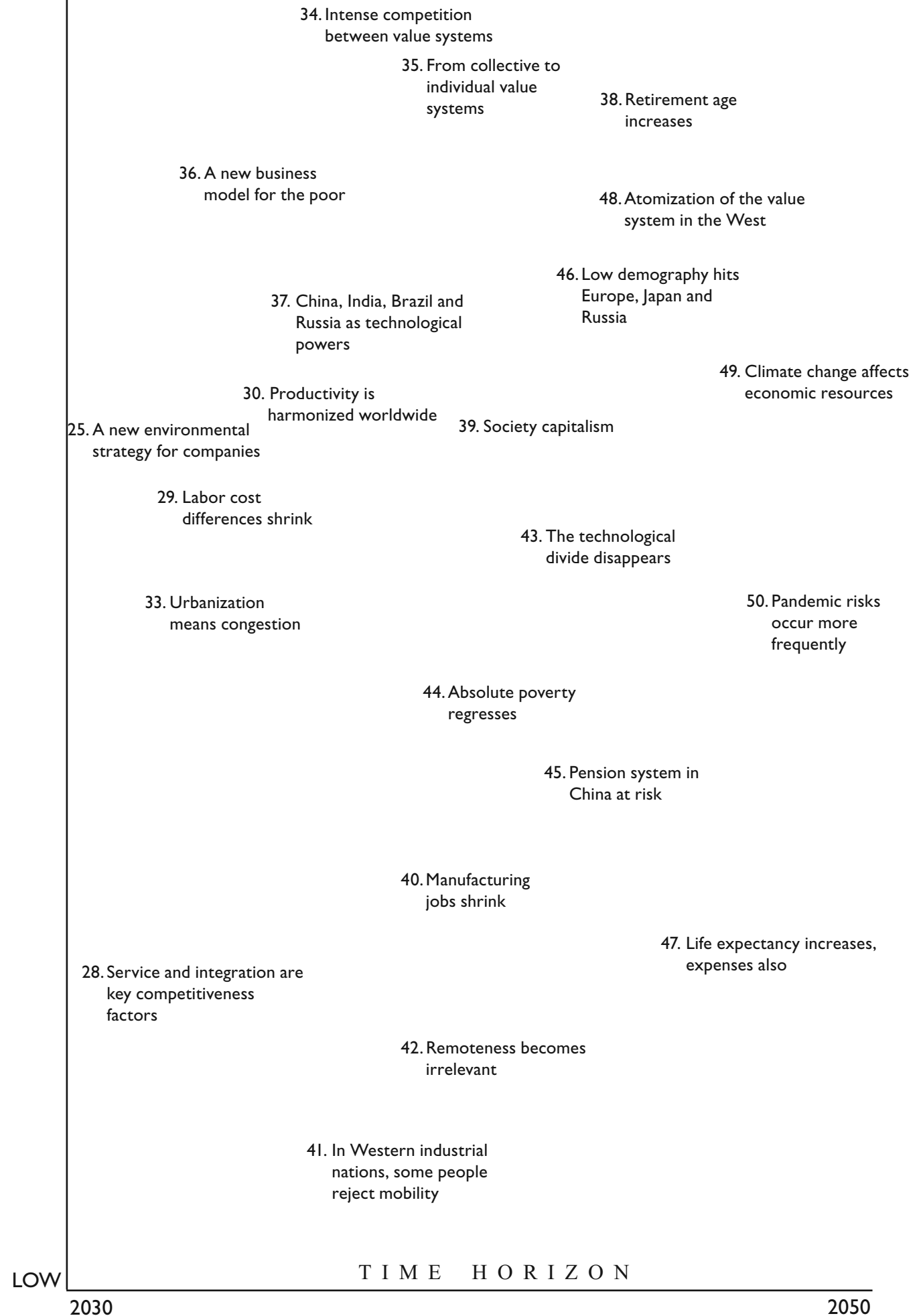
The “Competitiveness Roadmap” is an attempt to describe and assess the main issues that will affect the world competitiveness landscape over the next four decades. Issues are shown along two axes - degree of impact and timescale - to provide a clear “mental map” of the environment in which nations and companies will operate.

This is a subjective assessment which aims to bring some coherence to the multitude of issues that are said to be having an impact – sooner or later – on the competitiveness landscape. These issues are succinctly described on the fold-out pages.

HIGH COMPETITIVENESS ISSUES SCOREBOARD



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- 1. Budget deficits remain high** - The US budget deficit in 2011 is expected to reach an impressive 8.9% of GDP. Britain is likely to post a deficit of almost -10%, the Euro area -6.2% and Japan -7.4%. Governments embark on unpopular spending cuts.
- 2. The recovery is desynchronized** – The stimulus plans are producing results; however the pattern of recovery is varied: some nations continue to struggle with recession – e.g. Greece, Portugal – others confront overheating such as China.
- 3. Unemployment becomes massive** – 25 million people lose their jobs in the OECD region and the average jobless rate hits 10% in the US and Europe. Youth unemployment reaches record highs, around 20% in Europe and the US, 42% in Spain.
- 4. Interest rates rise** - The cost of money attained some of the lowest historical levels. With the resurgence of inflation, interest rates are rising, but slowly so that growth is not impaired.
- 5. Inflation is back** – The economic recovery triggers a rise in commodity prices and demand. Excess liquidities inherited from the recession flood the markets. Inflation is back but not everywhere: India, Russia and China are leading the pack, the UK less so, and Japan is still struggling with potential deflation.
- 6. High volatility of currencies** – The dollar remains weak and is continually tested by financial markets. The Euro stabilizes above 1.40 to the dollar as emerging markets increasingly buy Euro bonds to diversify their holdings. The Chinese Yuan appreciates gradually.
- 7. Global debt explodes** - The average G20 debt increases from 78% of GDP to 106% and above. The US national debt now surpasses \$14.2 trillion. However, the “implicit” debt, which comprises all unfunded liabilities (e.g. social security, Medicare) tops \$110 trillion.
- 8. Economic nationalism on the rise** - Trade protectionism increases as it is linked to national stimulus plans (e.g. “buy national” clauses). New protectionist measures appear that are linked to financial regulations, environmental standards, corporate governance, etc. National champions are favored.
- 9. New regulations for global financial markets** - A fundamental overhaul of the regulatory environment takes place with the objective of laying down new rules for supervision, especially systemic risk. Globally, the Basel Committee on Banking Supervision and the Financial Stability Forum are responsible for defining new standards and practices.
- 10. Oil prices above \$100** - The recession forced oil prices to retreat from \$147 a barrel in July 2007 to \$42 six months later. The economic recovery, the demand of fast-growing emerging economies, and political turmoil push prices back up. New production fields such as tar sands, deep sea, or in the Arctic, do not suffice to soften price increases.
- 11. Emerging powers stack up currency reserves** – Emerging powers are accumulating foreign currency reserves at impressive rates: Number one is China with \$2,648bn, followed by Japan \$1,051bn, Russia \$476bn, Saudi Arabia \$463bn, Taiwan \$372bn, India \$294bn, Korea \$289bn and Brazil \$279bn. Consequently, money is not necessarily flowing back to the US or Europe as in the past.
- 12. Sovereign funds increase their power** - \$4,256bn are currently managed by sovereign funds, the largest being ADIA in Abu Dhabi with assets of \$627bn. This money will increasingly be directed to investments in local infrastructure, buying industrial assets abroad and financing the globalization of local companies.
- 13. The South develops its own economy** –In 2010, China directed almost 60% of its exports to emerging economies. The “South” can now rely on an unprecedented conjunction of resources: raw materials, money (from sovereign funds), technology, market size (growing middle class), and local companies that are quickly globalizing.
- 14. New global brands everywhere** - Companies that were unknown a decade ago, and originated in emerging economies, are now quickly becoming global players with distinctive brands. For example, Chinese Haier has become the largest household appliances manufacturer in the world.
- 15. Consumers react differently** - Industrialized nations are characterized by a “replacement economy” where purchases replace existing products while emerging nations are in a “first-buy economy” stage where purchases introduce new products into households. In other words, an economy defined by “I want it” versus one defined by “I need it”.
- 16. Food commodities prices recover** – Food commodities have seen their prices increase by over 40% since the end of the recession. An emerging middle class is changing its eating habits and greater demand will push prices up again. For example, China is moving away from a rice-only diet. In a decade it has increased its milk consumption seven-fold, poultry by 60%, beef by 30% and wheat by 25%.
- 17. State capitalism is fashionable** – Governments are moving from being stakeholders to being shareholders of their economies. State interventions increase and national leaders consider it a priority to defend and develop national champions. As a consequence, government spending now represents on average 50% of GDP in advanced economies.
- 18. Personal taxes increase** – With the end of the recession, personal taxes increase to help governments rebalance their budget deficits. Higher incomes are particularly targeted since their credibility has been damaged by excessive bonuses, “golden parachutes” and disproportionate salaries. Tax havens are severely curtailed.
- 19. The dollar loses its leading role** – More than 60% of the world currency reserves are in dollars and 32% are in Euros (the pound and the yen remain negligible). However, emerging economies increasingly worry about their dependency on the dollar and the policies of the US Fed. Rather than switching to another currency, several governments investigate the possibility of turning to a basket of currencies for their reserves or even for pricing their exports (especially natural resources).
- 20. Emerging powers raise their voices in international institutions** - Emerging powers significantly increase pressure to gain access to decision-making in international institutions by emphasizing their predominant economic weight and their financial capabilities to fund such institutions.
- 21. Emergence of a new middle class** - The emergence of a middle class in Asia, Central Europe and Latin America changes the nature of the world economy. Defined as a population living on \$2 to \$13 a day, the middle class has exploded from 1,428 million in 1990 to 2,644 million in 2008, and is forecasted to reach 3,600 million in 2030. In India, 50 million people today are middle class; there will be 580 million in 2025.
- 22. New attractiveness for the Gulf region and Africa** There are \$800bn of infrastructure projects under completion in the Gulf region while Africa is becoming attractive thanks to energy and commodity investments. More than 800 Chinese companies operate in Africa. The population of Africa will reach 1.7bn in 2050!
- 23. Russia: A world player again** - Russia regains its status as a world player. This Russian comeback thrives on oil, gas and commodity prices to re-establish a stronger international presence. Russia addresses its infrastructure problems and the rule of law for a more stable business environment. Politics and economics remain totally interwoven in this new approach to power.
- 24. More managers needed everywhere** - More managers are required in emerging powers. India, China, Russia, Brazil and the Gulf region increasingly focus on management and the creation of business schools, beyond science and engineering education. Strategy, finance and marketing skills are now priorities for ensuring the continuous expansion of local enterprises in a global environment.
- 25. A new environmental strategy for companies** - Climate change is clearly a priority for public opinion. Governments and companies enhance their visibility on environmental issues and integrate an environmental dimension into their strategy. Companies that fail to do so will not attract the best talents in the younger generation, who are very sensitive to this issue.
- 26. Life sciences and environment attract massive investments** - Life sciences, as the population becomes older (40,000 centenarians in Britain in 2030), and environmental technology, as the world becomes hotter (+ 0.6°C in 20 years), will attract massive investments. Innovation proliferates in these two areas of knowledge. Wellness, in addition to curing existing diseases, becomes a priority for ageing populations.

27. Intellectual property vs. open systems - The intellectual property debate opposes two conceptions of world business: on the one hand the respect for innovation and invention and on the other hand the thrust for a more open and collaborative society where information is widely shared. Social network systems flourish and challenge government-controlled information in some parts of the world.

28. Service and integration are key competitiveness factors Service competitiveness (banking, financial transactions, customer relationships, brand management, etc.) remains one core of the competitiveness of Europe and the US. The ability to integrate and manage a global business model is another.

29. Labor cost differences shrink - The difference in labor costs around the world is drastically reduced as nations develop. A range from 1 to 20 today is reduced to 1 to 5 as purchasing power around the world converges.

30. Productivity is harmonized worldwide - Productivity is harmonized around world operations as companies become truly global and widely diffuse the same technology and processes throughout the markets where their assets are located. The value chain is managed at the global level. The nationality of companies matters less and less.

31. Corporate taxes converge - Nations, which have competed fiercely in lowering their tax rates to attract enterprises, are developing an international consensus that establishes common and agreed-upon practices for the taxation of companies, no matter where they operate. The bandwidth of corporate tax rates is significantly reduced. Loopholes are severely curtailed.

32. From cheap manpower to cheap brainpower - The world moves from a competitiveness model based on cheap manpower to one based on cheap brainpower. In total, India, China and Russia "produce" 14 million university students each year, as many as the US. These students quickly become young professionals eager for success, who are relatively affordable and highly motivated. Through technology, these brains can be accessed from all over the world.

33. Urbanization means congestion - The urbanization of the world economy increases pressure on economic and social infrastructure (roads, water, hospitals, etc.), the environment and also increases social problems (rural migration to cities). Between 1900 and 2000, the world population living in cities exploded from 150 million to 2.9 billion! As a consequence, congestion becomes a major issue in several large cities.

34. Intense competition between value systems - The competition between value systems is exacerbated by the success of emerging powers. In Asia and Central Europe a "work hard, get rich" attitude competes with a "work-life balance" attitude in industrialized nations.

35. From collective to individual value systems - The value system of society in Asia gradually evolves from one based on collective values (such as hard work and national pride) to one based on individual values (such as work-life balance), much closer to the US and European value systems.

36. A new business model for the poor - A new business model emerges for the very poor of the world (such as in Africa or the Indian subcontinent). Products are manufactured and sold at a fraction of the price charged elsewhere, and with minimal functionalities. Examples: the \$10 phone, \$100 PC or \$2,500 motor vehicle (e.g. Tata in India), and services such as micro-finance and mobile phone financial transactions.

37. China, India, Brazil and Russia as technological powers China, India and Russia regain their age-old status as technological powers. Foreign companies no longer hesitate to transfer research centers to these countries that have a long tradition of excellence in science and innovation.

38. Retirement age increases - The pension systems in Europe and Japan are increasingly at risk. One-third of the population is now over 60 years old; 10% is older than 80! Retirement gets closer to 70 and fluctuates depending on the industry sector and the hardship of work. Some white-collar pension systems now have to deal with an increasing number of centenarians. The financial crisis has reduced accumulated wealth and employees are forced to retire later.

39. Society capitalism - After a period of "enterprise capitalism" aimed at shareholder value, and one of "state capitalism" based on local value, a period emerges focusing on "society capitalism" which redefines the role of enterprises as actors to solve wider societal issues such as the environment, sustainable development, poverty, etc.

40. Manufacturing is back - In 1980, 16% of US profits were achieved in the financial sector and 41% in 2008. In 20 years the manufacturing base in the US and the UK has shrunk by 1/3 to 11.3% of GDP. Companies reassess extreme outsourcing and delocalization. There is no competitiveness without a sound manufacturing base.

41. In Western industrial nations, some people reject mobility - Although communications and travel are more pervasive, a part of the population rejects excessive mobility and rediscovers the attractiveness of a local environment. Younger professionals reject promotions or re-location of responsibilities when they are too disruptive to their private lives. Congestion in cities, airports and most transportation systems takes away the attractiveness of mobility.

42. Remoteness becomes irrelevant - The disappearance of most trade and investment barriers, the efficiency of the international logistics system (roads, shipping, trains and air freight) and the pervasiveness of communications technology give every single nation and enterprise instant access to world markets and unlimited opportunities.

43. The technological divide disappears - The technological divide disappears because of the development of a worldwide communications infrastructure and the proliferation of cheap technological products for the poor.

44. Absolute poverty regresses - The level of absolute poverty (\$1 a day at 1996 prices) is being drastically reduced. It has already fallen from 15.4% to 5.7% of the world population between 1970 and 2006. A new market emerges: 2/3 of the world's mobile phones are in emerging economies; 80% have no internet access, 1/3 no bank account. Mobile money flourishes.

45. Social expenditures in Asia - The OECD devotes 20.5% of its GDP to social expenditures, Japan 16%, but South Korea only 7.5% and China a mere 4.6%. With development, social expenditures expand and nations need to plan ahead for the increase of such "non-productive" investments.

46. Low demography hits Europe, Japan and Russia - The low demography in Europe, Japan and Russia takes its toll on the dynamism of the economy. In 2050, Europe will count 628 million people, having shrunk by more than 100 million in 50 years. Could more lenient immigration policies compensate for this decline, especially for skilled labor?

47. Life expectancy increases, expenses also - Life expectancy increases dramatically to well over 85 years old in many industrialized nations. The burden on the health system becomes greater, also due to the early systematic screening of the population for illnesses.

48. Atomization of the value system in the West - The value system in Western societies becomes "atomized". A common purpose in the population is replaced by a multilayer society where many different value systems cohabit, each of them appealing to a specific part of the population.

49. Climate change affects economic resources - Climate change forces the re-allocation of economic resources. Food and water become scarcer in some regions, while new crops become available in more northerly regions. The prices of basic commodities are totally altered. The "environmental cost" becomes part of the economic scenario, and is thus included in statistics such as the GDP.

50. Pandemic risks occur more frequently - As the world becomes more open, transport more pervasive and logistics more efficient, epidemics spill more easily from one continent to another. Pandemics are permanently monitored by international organizations, and companies tighten up their health and safety procedures.