

THE COMPETITIVENESS ROADMAP: 2007 - 2050

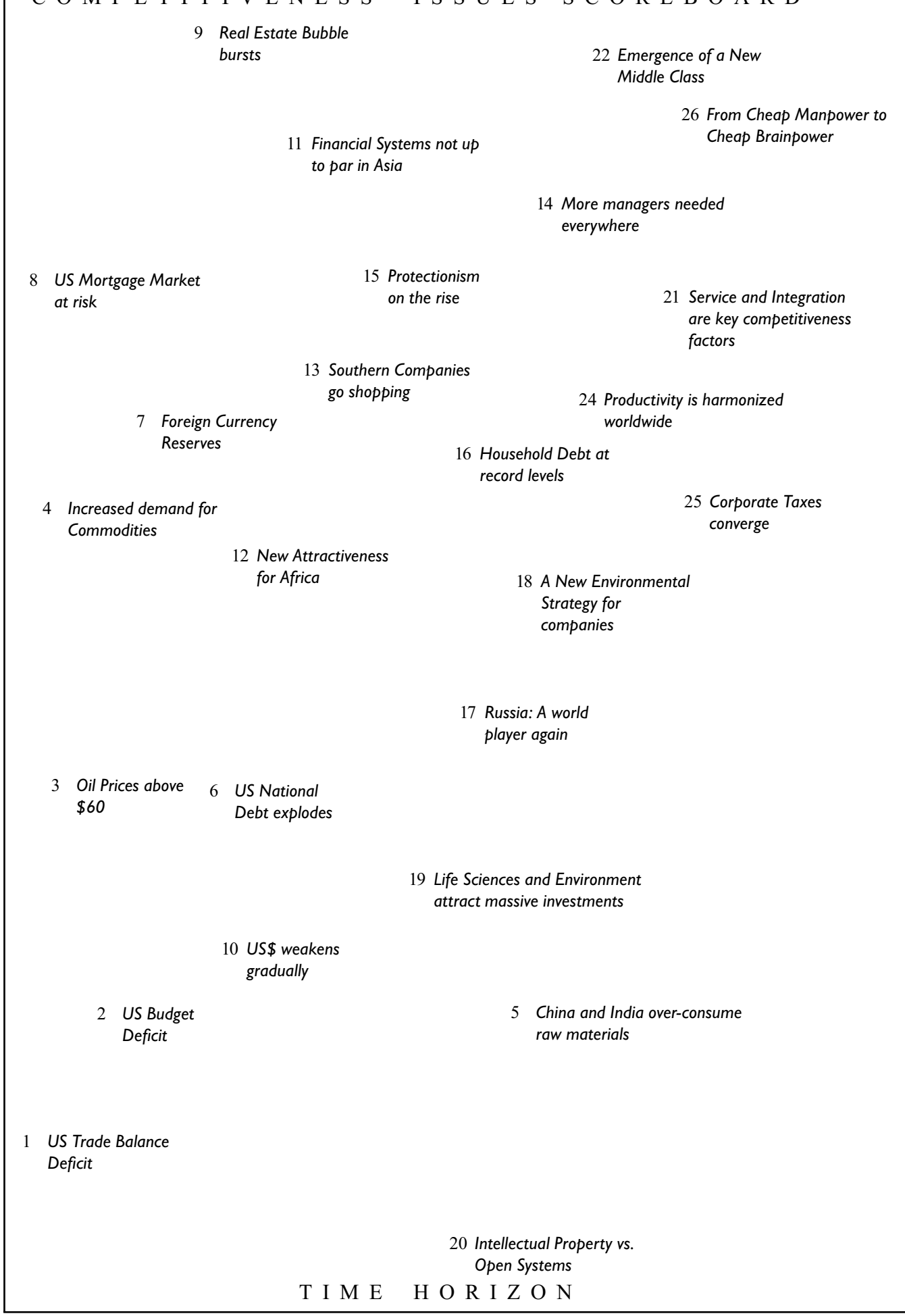
by Professor Stéphane Garelli

The “Competitiveness Roadmap” is an attempt to describe and assess the main issues that will affect the world competitiveness landscape during the next four decades. Issues are shown along two axes, degree of impact and time-scale, 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 below:

HIGH COMPETITIVENESS ISSUES SCOREBOARD

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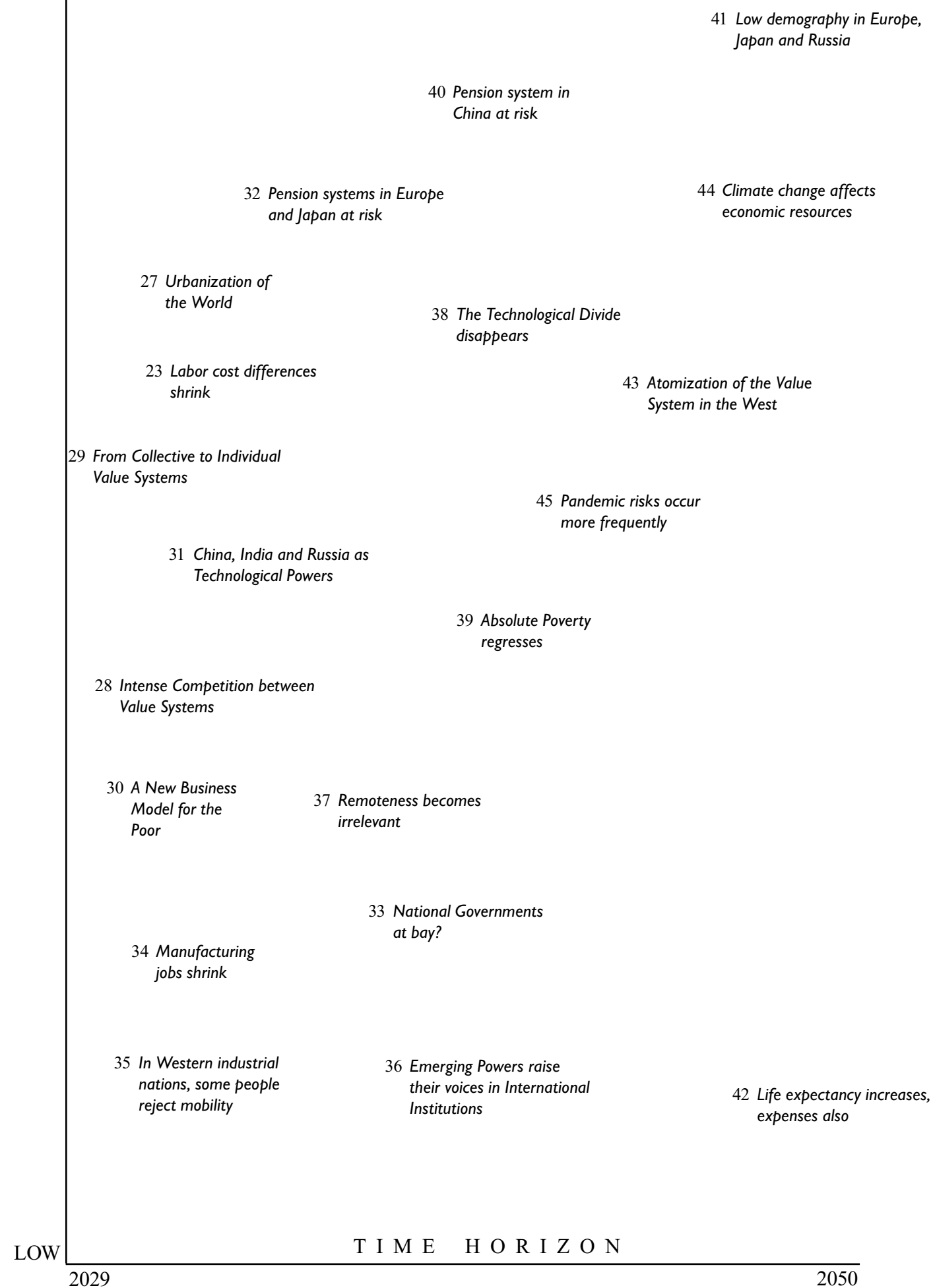


TIME HORIZON

2007

2029

HIGH COMPETITIVENESS ISSUES SCOREBOARD



1. US Trade Balance Deficit - The US balance of trade deficit is approaching \$900bn, i.e. 6.5% of the GDP. 30% of the goods come from China, but some 20% of the products imported into the US are actually American products manufactured abroad by US companies and shipped back home.

2. US Budget Deficit - The US budget deficit is around -\$260bn, better than the -\$413bn at the end of President Bush's first term, but a long way from President Clinton's surplus of \$236bn. The five past Republican presidents have always increased budget deficits.

3. Oil Prices above \$60 - Oil prices remain under pressure at over \$60 a barrel. Fast growing demand in India and China is pushing prices up. In addition, 71% of oil production is state-owned. Energy has become a political tool.

4. Increased demand for Commodities - Commodities will remain in strong demand as emerging countries surf on higher growth rates. The attractiveness of many emerging markets (e.g. Africa, former CIS countries, etc.) will greatly depend on their raw material resources.

5. China and India over-consume raw materials - China and India continue to over-consume raw materials. China, for example, is now responsible for 19% of the world's aluminum consumption, 20% of copper, 27% of steel, 31% of coal, 47% of cement (but only 8.5% of oil...).

6. US National Debt explodes - The US national debt explodes, exceeding \$8.7 trillion and growing by \$1.3bn a day. To finance this debt, the US has sold some \$2,200bn of Treasury Bonds to foreigners. More than \$300bn worth of which is now in Chinese hands.

7. Foreign Currency Reserves - Foreign currency reserves are accumulating at impressive rates in emerging countries: number one now is China with \$1,200bn, followed by Japan \$909bn, then Russia \$357bn, Taiwan \$267bn, Korea \$244bn and India \$203bn.

8. US Mortgage Market at risk - The Real Estate mortgage market in the US (especially sub-prime lending) is under threat. Mortgages represent a \$7,000bn market in the US. Over the past decade, US house prices have increased 100%.

9. Real Estate Bubble bursts -inflation in housing prices around the world is impressive: 132% in Australia, 192% in the UK, 252% in Ireland and 327% in South Africa over the past decade. How long can this last?

10. US\$ weakens gradually - The US\$ continues to slide and the Euro is increasingly chosen as an alternative. More raw material-producing countries attempt to price their goods in Euro. Several exporting nations in the emerging world now try to peg their national currency to a basket of dollars, euros and yen.

11. Financial Systems not up to par in Asia - The weakness of the financial system remains the Achilles' heel of Asia. The degree of sophistication and transparency of finance in the region is not as advanced as manufacturing competitiveness and constitutes an endemic risk of destabilization for the region.

12. New Attractiveness for Africa - Africa is becoming attractive again thanks to energy and commodities investments. More than 700 Chinese companies operate in Africa. Emerging powers benefit from the absence of a colonial past in the region.

13. Southern Companies go shopping - "Southern companies" are using their cash to buy industrial assets and companies abroad in emerging markets but also in the industrialized world. Some are state-owned such as Temasek in Singapore or Mubadala in Abu Dhabi. Many are privately owned, such as MTN, Wipro, Tata, TCI or Haier.

14. More managers needed everywhere - More managers are required in emerging powers. India, China, Russia and Brazil 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.

15. Protectionism on the rise - Protectionist retaliation will increasingly confront acquisitions pursued by Emerging Powers. Public opinion and governments are increasingly sensitive to a potential loss of economic power and national prestige – the problems encountered by DP World (Dubai) in acquiring US port operations and by China in trying to buy Unocal illustrate this trend. Such protectionist measures will rely on issues such as environmental protection, corporate governance, social protection or intellectual property.

16. Household Debt at record levels - Household debt in the US and the UK are reaching record levels exacerbated by private consumption and mortgages. Personal bankruptcies will proliferate and more restrictive lending practices will be introduced. Household debt limits the use of interest rate policy as a means to fight inflation by central banks and thus limits their margin of maneuver.

17. 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. Politics and economics remain totally interwoven in this new approach to power.

18. A New Environmental Strategy for companies - Climate change is so clearly an issue for public opinion (the past ten years are the hottest ones on record since 1850) that companies must enhance their visibility on environmental issues and integrate an environmental dimension into their strategy. Those companies that fail to do so will not attract the best talents in the younger generation, who are very sensitive to this issue.

19. Life Sciences and Environment attract massive investments - Life sciences, as the population becomes older (10 million more elderly people per year), 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.

20. Intellectual Property vs. Open Systems - The intellectual property debate opposes two conceptions of world business: the respect for innovation and invention on one hand and on the other hand the thrust for a more open and collaborative society where information is widely shared.

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

22. 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. 600 million people have reached this status over the past 6 years, spending on average \$4,000bn a year on housing and consumer goods (even luxury goods). This new middle class is expected to double in size every 7 years.

23. 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.

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

25. 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 from. The bandwidth of corporate tax rates is significantly reduced.

26. 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” each year 14 million university students, 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.

27. Urbanization of the World - The urbanization of the world economy increases pressure on economic and social infrastructure (roads, water, hospitals, etc.), the environment and social problems (rural migration to cities). Between 1900 and 2000, the world population living in cities exploded from 150 million to 2.9 billion!

28. 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.

29. 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.

30. 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 the \$3,000 motor vehicle.

31. China, India 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.

32. Pension systems in Europe and Japan at risk - 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.

33. National Governments at bay? - National governments are struggling to preserve specific areas of competence while most responsibilities are transferred at regional levels (such as the EU) or at multilateral levels (such as the UN, WTO, etc.)

34. Manufacturing jobs shrink - During the past decade, the world production of manufactured goods has grown by some 50% while manufacturing jobs have declined by 10%. Such a trend also takes place in emerging industrial powers such as China. Higher productivity world-wide - in part due to the internationalization of technology and manufacturing processes - is the explanation.

35. In Western industrial nations, some people reject mobility - Although communications and travel are more pervasive, a part of the population rejects excessive mobility and re-discovers the attractiveness of a local environment. Younger professionals reject promotions or re-location of responsibilities when they are too disruptive to their private lives.

36. 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.

37. 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.

38. 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.

39. Absolute Poverty regresses - The absolute level of poverty (\$1 a day at 1996 prices) is being drastically reduced. It has decreased from 15.4% to 5.7% of the world population between 1970 and 2006. However, inequalities of revenues among the world population increase. The richest become even richer. Social tensions do not disappear.

40. Pension system in China at risk - The pension system in China is in jeopardy. The transition from a Confucian society where children took care of their parents in their home during their old age to a society where elderly people retire in a social and health system of their own costs money. However, the pension scheme may not have been properly funded over time. Compulsory savings (deducted from wages as in Singapore) could be the answer.

41. Low demography in 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?

42. Life expectancy increases, expenses also - Life expectancy increases drastically to well over 85 years old in many industrialized nations. The burden on pensions, and especially, on the health system becomes less and less sustainable.

43. 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.

44. Climate change affects economic resources - Climate change forces the reallocation of economic resources. Food and water become scarcer in some regions, while new crops become available in more northerly regions. The “environmental cost” becomes part of the economic scenario, and is thus included in statistics such as the GDP.

45. Pandemic risks occur more frequently - As the world becomes more open, transports 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.