



# Deep change and new opportunities in a post-crisis world

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Is the current crisis taking us to a turning point towards a different world in which the rules of the game have changed?

The 2009-2010 annual report of the **Observatory of Foreign Markets Prospective** analyses the size, impact and depth of change, looks out to possible scenarios in a reglobalised world, examines underlying forces creating the economic and business setting to detect discontinuities, while analysing the implications for business strategies and identifying new opportunities. Some of its main ideas are summarised in the following.



An analysis is needed with a certain perspective of the current situation, possible changes that may occur and scenarios that may come up with new challenges and opportunities.

International trade data require special attention as, despite protectionist temptations are kept under certain control as of now, they point towards a stronger reduction of the world trade volume than in the 1930s.

So can we say that deglobalisation is occurring? In fact, trade reduction has been affected not only by a fall in worldwide activity but also by restrictions of trade finance and especially by statistic impacts following the creation of global production networks.

### **Global production networks increase the impact of activity on trade, both upwards and downwards.**

When production is divided at a global level into networks doing the different tasks or activities at different locations and sending components, intermediate inputs or semi-finished products to each other, a fall in final sales translates into a reduction of trade exchange at any stage, so the impact on the trade volume is amplified and multiplied, the bigger so-called vertical specialisation or trading in tasks is.

Recent analysis shows how global production networks increase the impact of activity on trade, both upwards (as in the years of pre-crisis prosperity) and downwards in a shrinkage scenario as the current one.

The question arising is whether taking up economic activity would also stimulate world trade volumes in an equally multiplied or amplified way. The answer depends on the extent to which incentives are kept to operate with global production networks, i.e. non-existence of effective deglobalisation beyond the statistical one.

## **Future scenarios**

Due to the complexity of the current situation, the range of future scenarios is especially large and each alternative bears challenges and risks of its own, both globally and referred to Europe and Catalonia. Nevertheless, some relevant settings with implications to be considered are summarised in the following:

### **Protectionist deglobalisation**

The most extremist present a scenario of protectionist deglobalisation that will repeat the mistakes made in the 1930s. The possibility of a return to protectionism is suggested periodically. However, it seems that there is a certain degree of historical memory that considers that the worst way to go is to repeat the mistakes of the past.

### **Also, concerns have come up recently that new environmental initiatives related to new expansive policies (Green New Deal and similar ones) could encourage protectionist temptations and measures.**

According to some, implementing exceptional tax and monetary measures could help smoothen protectionist temptations – at least regarding extreme protectionism – and keeping an open multilateral order is a mechanism of guarantee that is to be preserved. However, some analysis on protectionist measures are noteworthy that could be termed as low-key protectionism, the aggregate impact of which should be assessed. In its report published in July 2009, the **Global Trade Alert** (GTA) included 67 protectionist measures in 26 jurisdictions that could potentially affect 142 countries in a negative way.

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policies (*Green New Deal* and similar ones) could encourage protectionist temptations and measures.

A relapse into protectionism would affect Europe in an especially negative way for different reasons, among which the fact that the European Union heads the goods exporters ranking. Despite adverse incentives by the Spanish growth model in recent years, Catalonia is at the front of exports and has more opportunities to take advantage from other open and competitive scenarios. Hence such a protectionist trend would be negative for the global economy as a whole but especially so for Europe and Catalonia, regarding both incentives and most probably results.

## Business as usual

At the other extreme appears a “keep going” scenario of the pre-crisis situation that considers the crisis an unpleasant hiccup. Once it is overcome it would be possible to return to a sort of **Bretton Woods II** or a variation of this system without learning the most basic lessons of the cost of chronic domestic savings insufficiency. In this case, it would not take long to have another wave of troubles that would again show the risks of ignoring the lessons of history, from the earliest in time to the most recent one. And one lesson is that any crisis of a certain extent and depth is not just a cyclical phenomenon but catalyses new trends and realities, and exiting them requires to do things in quite a different way from the initial situation.

**The problem is especially the incentives that stimulated the allocation of production resources to rent-seeking rather than profit-seeking.**

This scenario creates several big problems that involve a potential return not only to imbalance

but also to its perverse incentives and effects. It is especially important to consider that the problem is not only external imbalance but especially also the incentives that stimulated –and should not create again– the allocation of production resources to activities of doubtful productivity or rent-seeking rather than profit-seeking in competitive open markets.

Such a scenario is potentially negative as Catalonia has been punished by the growth model adopted in recent years, by despising productive economy, placing **rent-seeking** above **profit-seeking** and the additional difficulties for innovation and internationalisation as compared to other activities offering more attractive short-term incentives despite their negative medium-term impact.

## Reglobalisation: new, more solid trends?

A scenario that may seem halfway between protectionist deglobalisation and Bretton Woods 2.1 but, as is explained in the following, could be qualitatively different is the one originating in adjusting to reasonable situations that were pointed to without success at a given stage in times of expansion.

In this respect, some analysts talk of partial deglobalisation or intermediate globalisation, based on the fact that China is able to keep its dynamism in a world with less overall imbalance, combining resource allocation towards the most dynamic industries – often as a result of foreign competition – but without the artificial stimulus of an undervalued exchange rate of the Chinese currency (yuan or renminbi).

Such dynamism is rather based on fostering industrial policies as those lying at the basis of success in China and other Asian countries, with a greater orientation towards domestic expenditure including more consumption (and welfare) and more social protection, which would take pressure from savings.

The compensation for the United States (extendable to other industrialised countries with recent savings insufficiency and excess dependency on foreign finance such as Spain and specifically Catalonia) is reduced external imbalance, a higher savings rate and especially reorientation in allocating resources to traded industries, subject to international competition and its pressure on innovation and costs, which would take the so far leading role of non-traded activities that are not only limited in their productivity and creativity but also a hotbed of models and values leading to impoverishment. Such an evolution is especially important and interesting for Catalonia.

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In such a scenario, these adjustments would reduce the globalisation indicators as the need for foreign and trade imbalance financing would decrease, but it would be mainly a statistic deglobalisation within the recovery of a more solid and sustainable balance.

Also, the European model takes a renewed leading role within this scenario. Right now, expansive measures in China include a commitment to protection, while the **Obama** administration is taking up the public health challenge over which the **Clinton** administration stumbled. The issue is to have social cohesion converge with competitiveness in both countries, bringing them closer to one of the distinctive features of the European model. Perhaps the latter should reassert itself more stronger, the more if the euro also manages to

get around the current delicate situation and the emerging economies learn the lesson on the importance of institutional quality.

## Deep change

Even though we are facing economic scenarios with a high degree of uncertainty, what remains is a deep change the current crisis is shaping regarding its intensity and speed. Yet its sub-jacent character has it stay, accelerate or decelerate, giving way to new phenomena, realities and opportunities. Some of the most relevant are pointed out in the following:

### From G-7 to G-20 and on to G-2?

Some recent analysis points out that in a post-crisis scenario there may occur a growth differential between emerging and developed countries. The current recession can have differing long-term effects on the speed, impact and competitiveness of countries based on public, private, individual and collective response, as the different macroeconomic scenarios have shown.

The main historical challenge of the current situation and the immediate future is probably how to redistribute the political power stemming from economic and financial shift without war, which has been the traditional way over history. The **European Union** experience can be of particular interest here.

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Comparative analysis on the different globalisation waves points toward a correlation between keeping trade and international transactions



fluid and safe and the presence of a hegemonic power safeguarding these conditions. However, when the political power crumbles and rivalries and struggles appear, legal and physical security of routes and transactions is often negatively affected by it.

All this makes the challenge of global governance including the adaptation of institutions especially delicate. There are both geopolitical and economic struggles. Europe should avoid the G-20 to become de facto a G-2.

### Strengthening a low-cost society

On top of increasing urbanisation and unprecedented ageing in the West and some emerging economies in Eastern Europe and China, there are derived consequences and shift in demand patterns as well as uncertainty on the future of pensions.

One factor that will play a major role in the regression of the middle class in many countries, especially the most developed ones, is the reduction of purchasing power of millions of pensioners. The expectation of future incomes in retirement has been reduced as the structural crisis of public pension schemes has become deeper.

### The trend towards a new polarised social system has become stronger, with a reduced technocratic and considerably better-off class on one extreme and a social classless magma amalgamating the former middle and lower classes on the other.

There are also worse labour and wage conditions. The crisis has brought about a clear increase in unemployed, working poor and workers with vulnerable jobs. The trend towards a new polarised social system has become stronger, with a reduced technocratic and considerably better-off class on one extreme and a social classless magma amalgamating the former

middle and lower classes on the other. The trend towards a low-cost society with business models breaking up traditional segments is becoming ever stronger. There are examples in industries such as tourism, furniture, fashion, sports gear and DIY.

### The rise of a new middle class in emerging economies is considered to be one pillar to tackle the current crisis.

Also, the rise of a new middle class in emerging economies is considered to be one pillar to tackle the current crisis. If the US are not the driver of global consumption anymore, which region can take its role? The answer suggests two possible scenarios. The first is that Asia becomes the new centre of gravity (China and India have more than one billion people with incomes close to middle class levels). Once growth retakes its course and households reach over a yearly US\$20,000 available income (adjusted to purchasing power parity), there will be a considerable increase in discretionary consumption. As some forecasts point out, China will become the third consuming economy after the EU and the US, and India the fifth after Japan in the next decade. Three of the five big consumption markets will thus be located in Asia.

As an alternative, the consumption map could become more multipolar – even if economic growth still concentrates on China, India and other emerging countries – if government policies and behaviour patterns keep a high savings rate in emerging economies.

There is also a relevant segment of the population at the basis of the pyramid representing an opportunity in times of crisis and able to help strengthen low-cost products as they cover very specific needs.

Consumption loses its intermediaries and becomes dematerialised, two already established trends the crisis has only strengthened.

Dematerialisation of consumption occurs in terms of more culture, less fabric, more communication, less property, more social and environmental responsibility, more sharing. And it is losing its intermediaries, brings the source of production closer to the consumer and has the consumer participate more in production. But consumption is also becoming dual, as has been mentioned above.

### Immune global connectivity

Information and communication technologies (ICT) have consolidated labour organisation, production and innovation through networks. Traded activities exchanged either physically or electronically have widened.

Experts predict a certainly healthy ICT industry and that this may represent an opportunity for companies taking advantage from this potentiality. If before the crisis, an approximate 2.1% growth of ICT was expected for 2009, now the forecast is 0.2% for the same year and 2.9% for 2011 within a moderate scenario.

The growth of mobile telecommunications in developing countries has not been affected by the crisis and big emerging markets such as Brazil and India recorded an increase in subscribers in 2008.

Governments intervene to alleviate the effects of transition towards **next generation networks (NGN)** able to transmit voice, data and multimedia services simultaneously, either by investing in national basic infrastructure or by including broad band network installation into their economic incentive packages.

### Globalisation of knowledge and talent as a key competitiveness factor

India, the **Association of Southeast Asian Nations (ASEAN)** and China will be the major sources of global talent supply in the coming years. The number of university graduates in

these emerging countries is increasing at an annual 5.5%, as opposed to 1% in high-income countries. This pace will probably be maintained, while ICT growth will not decelerate, which will allow global knowledge-related labour distribution and contribute to the ongoing growth of the global talent market.

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Despite a moderate trend towards migrants returning home due to the crisis (especially in Asia and the Gulf states), multiple dynamic talent migration flows are expected. As traditional migratory flows tend to reduce in developed countries, they tend to increase in emerging ones and within them. However, increasing talent migration will aim at some regions or cities only (cf. section *Towards a polycentric world. New technology and talent poles*).

The impact of the global financial crisis in education has differed considerably all over the world. In Europe, North America and some Asian countries such as Japan and Taiwan, it has been clearly negative. However, its effect on other parts of the world is still marginal. Public education demand is growing in many countries due to the crisis, while governments are facing post-crisis budgetary cuts that may reduce resources for education.

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The crisis opens many opportunities for creative products with a lasting, increasing future demand in the education branch. As there has been a great deployment in the health sector

with convergence of ICT and global trends encouraging health demand, a similar convergence for the future is appearing in education. However, there is not yet an entrepreneurial pattern nor a public-private symbiosis linked to education similar to the one that pushed the health system. It is here where a new research and development (R&D) horizon appears.

### **The drive for innovation with hybridisation of technologies becomes more necessary**

Technological progress is interdisciplinary. Even though commercial investment in R&D and new projects is slowing down with recession, it does not change innovation possibilities by combining or relating different technology fields (ICT, bio and nanotechnology, clean energy) with each other in order to create new business opportunities. This progress will continue despite a slow-down in its commercialisation.

Productivity is increasingly focused on intellectual work and services, and implications for companies are clear. In times of resource scarcity R&D investment needs to be protected. Although efficiency measures need to be set up (merging research structures, rationalising project portfolios, reassessing licence agreements, etc.), it is at the same time necessary to double investment in projects with potentialities after the crisis. Some analyses have stated that companies having invested in R&D in times of recession tend to overtake their competitors once the economy recovers.

Growth forecasts in the nanotechnology industry are positive. Nanotechnology can play a very important role to fight the current food and energy crisis. The financial crisis has also affected the biotechnology industry with deep change like a narrower focus in R&D, decentralisation of other areas following agreements with pharmaceutical companies and –between 2007 and late 2008, both in Europe and the US– a reduction in the number of researchers at big

pharmaceutical companies. All this change in the biotechnology and pharmacy branch points towards a new paradigm in networking-based research.

### **The most important and exclusive item to innovation economies are their social and professional networks: cross-connectivity, diversity and interdependence of people, companies, institutions and stakeholders.**

In this respect, networking turns out to be a vital strategy in a post-crisis reglobalisation scenario in which resource and talent scarcity is apparent. The most important and exclusive item to innovation economies are their social and professional networks: cross-connectivity, diversity and interdependence of people, companies, institutions and stakeholders. All these items are a key to growth and encourage the generation of ideas and innovation.

### **Towards a polycentric world. New technology and talent poles**

The United States, Western Europe and developed Asian countries concentrate the knowledge creation poles. But the differing impact of the current crisis increases the trend towards a better position of talent and technology poles in emerging countries like India and China, which can climb positions in the years to come.

The current crisis has had an impact on OECD countries as they were moving to knowledge-based service economies and affected significantly public and private R&D budgets to the detriment of innovation, which strengthens this trend towards polycentricity of talent, technology and innovation.

Following the crisis, one of the clearest trends setting this multipolar context is the increasing



role of governments in business that has picked up considerably in a reglobalisation scenario as the one introduced. Incentive packages have been implemented all over, support has been given to certain companies and branches and regulatory reforms have been initiated.

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### Latent pressure on natural resources

Before the financial and economic crisis, the increase in demand of **commodities**, from energy to food, led to a considerable price rise. Recession has changed the situation. In the case of oil, for instance, there are still fundamental restrictions on the offer that can become worse if investment in production capacity is delayed due to the crisis. Lack of market offer in oil could take us back to the 2007 situation (with prices at a very high level) between 2010 and 2013. Also, water resources are under increasing pressure due to population growth, deforestation and climate change. In 2030, 40% of global Gross Domestic Product (GDP) and 85% of the world population will be located in some regions where water demand will exceed its supply.

Regarding basic products, the World Bank (*Global Economic Prospects*, 2009) expects a moderation in basic product demand in the next decades as a result of a reduction in Gross Domestic Product (GDP) growth. Although it is estimated that these prices will fall in the short term, they will yet be higher than in the 1990s.

Also, the global financial crisis and economic deceleration have had an important negative effect on access to food and deepened the global financial crisis. Although the food crisis has been around for years and became worse due to the price increase between 2004 and 2007, the financial crisis has now reduced capital availability in a time in which agricultural investment is very important, especially in emerging economies and poor countries.

Reduction in capital for long-term investment has meant depreciation of natural resources, with its first consequences in the shape of fertile land acquisition in third countries by governments with food insecurity. Given the food and financial crisis, fertile land has become a strategic asset for governments and multinationals.

Different governments have already made arrangements to buy agricultural land in Africa, Asia and Latin America. Pressure on natural resources also strengthens the need for innovation and technology related to sustainability of current production models.

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### Beyond survival

The value of a company lies basically in its intangible rather than tangible assets.

Creativity and innovation are the most important items to consider given increasing *commoditisation* or standardisation of technology with

the deep change that has been pointed out. The role of creativity needs to be insisted on in the current context. Efficiency is necessary but not enough in a setting of hypercompetition that is reaching its climax with the crisis.

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