

Prepare for a new world:

**What we need to understand
about the new geopolitical and economic realities**

Five major trends are emerging that will shape the evolution of the economic and geopolitical landscape over the next 10 to 20 years. They are indicative of the new orientations that the globalization revolution is taking after an initial phase, in the last decade of the 20th century, that could be characterized as the “golden era” of globalization. Not that this present phase – and the trends that are shaping it – are negative in nature. But the kind of new phase of globalization in which we have now entered clearly portend a number of bumps on the road ahead, and a number of new challenges that were not necessarily in the form they are arising now.

➤ ***The difficult adjustment of the Western world to globalization:***

10 years ago, the US, and to a lesser extent Europe, were advocating the benefits of globalization to other countries in the world, urging them to open up their markets, to lower their barriers. They were proselytizing globalization and urging all others to “adjust” to it. The irony is that today emerging market economies – especially Asian countries – seem much more ready to adjust to globalization than many Western countries.

A key question today is: *Is the Western world ready for globalization as it has now come to realize that globalization is a two way street?* Globalization does not mean only that other countries are opening up their markets. It means also the irruption of new players barging into you own markets, competing with you on price and quality. It means the loss of the monopoly on knowledge and technology on which the Western countries had built their supremacy and had achieved very significant acquired advantages which are today put into question.

At the beginning, everybody was for instance looking China’s admission to the WTO as a way of locking in Beijing into “playing by the rules”. What many failed to realize and which is now dawning on them is the fact that China’s admission means also that Beijing has now entered the very selective club of rule setters on international trade. The era is over when it just sufficed that Europe and the US agree together to get a new international trade round wrapped up.

The emergence of China and India has definitely changed the terms of the competition. It is not anymore the kind of neat division of labor that many in the Western world were happy to contemplate in the 90s, with the US, Europe and Japan continuing to lead in high tech, high end, high profitability activities while China and India will be happy to produce the labor intensive, low tech goods and services. India is today a leader in high tech software services

Every single opinion poll in Europe as well as in the US reflects the new skepticism about the benefits of expanding free trade which is now seen as a threat to jobs, the same lingering anxiety about job security and about a future which is clouded not only by the impact of globalization for the middle class in Europe and the US but also by the ageing of the population and the drastic financial re-adjustments that it implies.

The European middle class has been the big loser of globalization. This is also the case for the US middle class, but it is in a better position to adjust because of the prevailing culture of mobility and change in the US, because of a much less pronounced mindset of entitlement. *In the coming years, Europe will be the main center of resistance against globalization.* Of course, change always prevails at the end and globalization will continue to move further, but the present context means that the trend in the coming years will be towards more frictions and tensions, what one might call “*bumpy globalization*”, with the continuing rise of populist sentiment in Europe, no political support in the US for any extension of the multilateral trade system.

➤ ***The structural shift in financial/knowledge powers***

What we are beginning to see which will continue and accentuate over the coming period is a major shift in the balance of financial power in the world. Of course, the US will continue to be the number one mammoth player on the global financial scene. But it will have to operate in the context marked by new converging trends: The rise of China as a major depository of assets: The People’s Bank of China will cross the threshold of one trillion USD in reserve by the end of this year and, even when taking into account its policy of currency diversification, is and will remain the single largest holder of US\$ outside the US Federal reserve. At the same time, as financial markets in China continue to develop over the next 10 years, the huge amount of savings representing close to US\$ trillion will increasingly be injected in the financial circuit, generating financial market activity.

The increase in oil prices has meant that in the last three years the countries in the Gulf including Iran have raked in about US\$ 900 billion in oil revenues and they are expected to add an additional US\$300 in 2007 at present oil prices. This money is being utilized by and large much more wisely than was the case in the previous oil booms. A lot of it is being invested either in the region or abroad. There have been a number of spectacular deals involving Gulf entities – public or private – acquiring, or buying stakes into, major corporations at the international level. Gulf money has increasingly be interested in acquiring equity stakes in global corporations and in high end real estate projects in the US and Europe. The investment arms of Kuwait, Dubai, Abu Dhabi have been scouting with increased intensity for diversifying equity investments at the global level.

At the same time, the Gulf countries have also significantly increased their share of U.S. Treasury securities. Some estimates now put these holdings at about US\$ 80 to 90 billion. The official figures are probably underestimating the reality and PFC Energy, an energy consultant in Washington quoted recently by Business Week puts at \$1 trillion the cumulative amount of foreign assets held by the Middle East countries. So oil money is helping sustain U.S. deficits in the same way that the People’s Bank of China continuing absorption of US Treasury Bonds.

While China or the Gulf oil producers are accumulating financial clout in an unprecedented way, the US is entering a period during the need to tackle its twin deficits will impact on its margin of maneuver. And European countries have to prepare for an era of tight fiscal policies dictated by the need to prepare for the huge burden that the ageing population and still un-adapted pension systems will put on their financial systems.

The trends now at play have nothing to do with a repetition of what happened at the end of the 70s when Japanese corporations, boosted by the re-evaluation of the yen after the Plaza accords, went on a shopping spree, mostly for trophy acquisitions – most of them over-priced - and then things went back as usual.



In a parallel way, **knowledge power** which was a quasi monopoly of the Western world and Japan is fast becoming much more decentralized.

One of the most remarkable trends of the last 20 years - in the context of globalization - has been the incredible shrinking of **“time to knowledge”**. One of the top Asian Semiconductors manufacturers was observing recently in a discussion with me that it had taken his company about 12 years to get to Europe’s level in Semiconductors production and that it was taking only four years to China to achieve the same level.

In the same way, India’s technological leap-frogging to become a world leader in software industry is another remarkable success story – a testimony of how technological knowledge is spreading at an accelerated pace.

This spreading of knowledge power is on an accelerating pace as countries such as India and China are putting new efforts and increasing resources in developing centers of academic excellence. Another crucial factor is what is happening with a great number of technologists and “knowledge workers” who had gone to the US because their home country was not offering the same possibilities to develop their skills are now going back home because these opportunities exist now.

Last but not least, there is not underestimating the impact of the R&D centers that global corporations have opened in recent years in China and in India. 400 out of the 500 Fortune companies have now such centers operating in at least one of the two giant Asian countries. Even if in many cases it is not the most sophisticated and advanced level of research which is conducted in these centers, the kind of environment they create, the training they provide for local scientists and technologists are a boost for knowledge creation in a much wider range of countries than before and are contributing to this shift in knowledge power which is happening.

Of course the US will retain for a number of years its technological lead. But forces are at play today that are creating a new and more balanced situation.

➤ ***The rise of new players – non state actors - and of new threats***

The coming years will see the accentuation of a trend through which the traditional holders of institutional power – whether governments or corporations or international organizations - will continue to be increasingly challenged by - and will have to compete with - non-institutional forces and groups at the national as well as at the international levels.

This trend is not only irreversible but will be felt even more in the years ahead: Globalization has meant – and has been spurred by - the rise of power of the global corporation enhanced by the elimination of the previously existing barriers to financial flows. This has created the conditions for the emergence of civil society as a self proclaimed counter force to the global corporation and as an expression of the anxieties generated by globalization and which could not be answered by the actions of governments seen as being put on the defensive by the forces of globalization.

The increasing legitimacy of NGOs is based on their ability to act and — by acting — to respond to the anxiety of the people about the loss of control on many aspects of their life. This has created a new dimension, breaking with the usual rules and *modus operandi* through which “public actors” were used to have their existence and action legitimized. NGOs have now established themselves as being the voice of the common good which in turn equals legitimacy, whereas business is portrayed as representing only their own specific interests.

These elements point out to an increased influence from non state actors looking down the road. Civil society groups are now seeing themselves as the super global overseers, protecting the citizen against the excessive power and reach of the global corporation. In the 90s many of the civil society groups were waging a war against globalization and their actions were mostly reactive ones – meant to express resistance and protest against globalization. What we see today is the development of a new trend through which non-state actors having realized that trying to reverse globalization was a hopeless approach are now actively engaged in efforts and initiatives aiming at “managing” globalization and trying to influence its course in accordance to their priorities, whether they be environment protection, social justice and wealth distribution or humanitarian concerns.

The ICT revolution has provided these groups with an ability to act and to expand their reach in an unprecedented way, bypassing the traditional channels of authority and communication, and achieving quasi instantaneous global reach, with an unprecedented mobilization capacity. *The growing influence of these non state actors is now changing the terms and modalities of governance, reflecting the new constraints on the role and margin of maneuver of the state.*

No country or government is now able to escape this new trend and its impact. Most striking has been the emergence of civil society groups in Asia where this phenomenon was non existent 10 or 15 years ago. Even China has now to contend with the rise of civil society and this trend is now very much felt in the Gulf region and in the Middle East in general, putting pressure on the regimes to adjust their governance practices.

Sustaining the increasing influence and role of non institutional actors is the general scepticism towards all institutions whether it is governments, churches, the UN, the media in general, or corporations and unions, there is not a single institution that has not been downgraded in the eyes of the public. All seem unable to meet the craving of the people for more transparency and accountability and thus — rightly or wrongly — they are all tainted. This de-legitimization of institutions - of “the establishment” - is part of the pervasive crisis of trust that will continue to affect all societies in the coming years and which feeds the populist trends so increasingly visible in many parts of the world.

The non-state, non-institutional actors are perceived as not being part of the establishment, and this confers them appeal and credibility, especially among the young generations.

Global corporations will increasingly have to contend with this new reality of non-state actors in the coming years as it will impact on any sector and almost every issue, from IP protection to obesity, from the observance of social and human rights in developing countries, to the environment and Internet policy. They will thus find themselves increasingly confronted with the need to integrate in their business decision-making processes significant non-business factors relating to pressures for more global regulatory constraints, or pressures borne out of expectations generated by groups that are not bound by business efficiency considerations.

A parallel trend is at play in the geopolitical domain. It is generated by the impact of globalization and of the ICT revolution but also by the situation of having the US as the sole superpower in the world.

The role of non state actors on the geopolitical scene is of course most strikingly felt in the emergence of terrorist groups operating on their own, often through a constellation of cells with no formal linkages, and creating asymmetrical threats that will continue to be part of the geopolitical landscape for years to come. Even if any strategic victory were to be achieved against groups such as Al Qaeda, the global threat of terrorism will not disappear as new groups — with the same, or different, motivations — will presumably emerge. They will – somehow - be expressing the same kind of frustration and resentment generated by the

intrusion of abrasive different values and lifestyles, by a situation of absolute prominence of the world scene by one single country.

➤ ***Globalization will not be a “converging trend” but an on-going story of globalizations***

The 90s were marked by the notion that globalization was irreversibly leading to a convergence between economic, political, cultural and social models around the world. But the trends that will develop in the years ahead are leading towards a ***more fragmented globalization***, towards different social, cultural and political models affirming their specificity, rather than a unique one.

Globalization will increasingly become multifaceted in the years ahead. Of course, the continuous spreading of global financial capitalism will lead to almost complete standardization with respect to a number of business activities and practices. But business being more and more global in practices and mindset will only be one element of the picture. Many forces will be at play in the coming years that will lead to a much more fragmented situation than the one that existed at the beginning of this decade.

1) A process of de-legitimization of US power and supremacy is under way — with ominous implications for the model that sustains this power and supremacy. This goes way beyond the frustrations created by the style or policy of this — or any other — US administration. This phenomenon has to do with the chain of reactions generated by the unprecedented situation of a US monopoly of power that started with the collapse of the Soviet empire and is here to stay by 2020 and presumably beyond — although with some significant alterations. In fact we are just beginning to realize the full implications of the collapse of the Soviet Union and of the emergence of a “one super power” global context.

Although the dynamism of the US society and economy will continue to generate a lot of envy and fascination, although US cultural products will continue to have the same impact worldwide, there will be further scepticism and dissociation in many parts of the world vis-à-vis the US model.

2) A growing dissociation between the European and American. Europeans and Americans will continue evolving towards values systems that, in the best of cases, are different and, in the worst of cases, are diverging more and more markedly. As we move ahead, the US society will remain deeply marked by religious values whereas Europe will increasingly be a “post-religious” society, with all the mindset, behaviour and values associated to that trend.

Despite the appearances created by European appetite for American movies or music, the trends point towards a much greater differentiation of values between the US and continental Europe in the years ahead. Despite all the business and economic symbiosis developing between Europe and the US — and which will continue to develop — the differences of values attached to economic activity and wealth creation, the differences of perceptions about the objectives of economic activity will remain at least unchanged over the years to come — if they don't widen even more.

As the only superpower in existence, the US will remain a country and a society for which the use of force will continue to retain a fundamental legitimacy — whether or not “blessed” by any multilateral mandate. Europe, as a continent broken by two world wars and colonial retreats, will more and more want to consider that we have now entered a new era where military force will become less and less relevant, and where conflicts can have in almost any circumstances a “civilized” negotiated settlement. This divergence of perspectives will widen as the gap between

European and American military might, and military power projection capabilities, will keep growing in the decade ahead.

The issue of national sovereignty will also increasingly become an element of divergence across the Atlantic. In Europe's view, the very concept of national sovereignty will be increasingly superseded by other considerations. After all, it is in Europe that the most dramatic experiment in relinquishing voluntarily some of the key attributes of national sovereignty is taking place. The US, on its part, will continue to operate on the basis of its national sovereignty — resisting any significant infringement of that concept, and even wanting to impose its own sovereignty in domains relating to business and economic activity, fiscal policy, etc. Significantly enough, in that respect, there are much more similarities between the US and Chinese attitudes towards national sovereignty than there are between the US and Europe.

Beyond the growing divergences of "models" between Europe and the US, another trend which is becoming increasingly pronounced is the fact that the other potential candidates for joining the model are in fact distancing themselves from it.

3) China will also be pursuing its own way and will increasingly be claiming to represent a model different from any Western precedent. In the 90s, one widespread assumption was that the momentum of economic modernization in China would lead to some form of political liberalization, and hence some kind of "convergence" with liberal political regimes and societies of a Western type. However, there are good reasons to consider that over the next 10 to 15 years China's evolution will not fit such a pattern.

Obviously, the leadership in Beijing will continue looking at ways to loosen the social pressure, to answer the ever-growing expectations of an increasing segment of the population. But, at the same time, this leadership is determined to not to allow any loosening of the political grip to degenerate into a snowballing process where one liberalization step would only feed the appetite for further ones.

Although it includes a not insignificant amount of liberalization and a further extension of the sphere of the individual autonomy, the kind of political model the Chinese political leadership has in mind will be significantly different from any Western one — to use broad generalities. And as strange as this might sound to Western minds, such a model — if its implementation is well managed — might quite well meet the needs and aspirations of the large majority of the Chinese people.

Even more striking is the fact that as the Chinese prestige and influence gain ground in East Asia, China is increasingly seen as a successful, attractive model — much more akin to the Asian culture and mindset than the American one. As a process of dissociation towards the American model develops, the "Chinese model" will increasingly gain in appeal, conveyed and promoted by Chinese tourists and Chinese investors heralding the success of China. One needs to add to this the fact that a growing number of Asian students will, in the years ahead, be doing their studies in elite institutions in China, which are significantly improving their standards.

All these elements will be highlighting the achievements of a system able to combine the advantages that a determined and coherent economic vision can create, with the attributes of an authoritarian regime, ensuring the mobilization of resources and the sustainability of some form of political control.

4) Russia will definitely evolve its own way between now and 2020, not constrained or motivated by any aspiration to "join the West" in terms of political practices and culture. The general assumption of the 90s was that Russia would more and more converge towards the

European model. This assumption has been shattered in the first part of this decade. Vladimir Putin has not at all been interested in joining any European model, even though he is interested in economic and financial cooperation with the US and Europe – but on his own terms and with the optimum leveraging of Russia’s energy assets which, in Russia’s strategy, are today playing the same role that the intercontinental ballistic missiles were playing in the former USSR’s strategy.

Whether the Russian president decides to seek a third mandate or not, the necessity to prevent any return to the kind of chaos of the Yeltsin years, and to keep together a huge country beset by tremendous economic and social problems as well as centrifugal forces, will limit very tightly the scope for evolution towards a genuine parliamentary democracy for the foreseeable future. What Russia is evolving towards is in fact a modernized — updated — version of the centralist, authoritarian system of government that has been a permanent feature of Russian history.

In the years ahead, the central issue will not be whether or not Russia will join some form of European model of democracy — which it will not. The issue will be whether or not the centralized power structure that Putin has put in place will be able to ensure and sustain the process of economic and social modernization that his country badly needs. Linked to that will be the question of the ability of Putin to achieve — even in part — the restoration of some form of role and influence for Russia on the global map. In that respect, one major issue is how Putin will be able to play the “energy card”. In that domain, the will to use oil and gas to further his strategic foreign policy objectives will presumably conflict with the interests of the factions around Putin eager to reclaim control of Russia’s energy resources — for their own benefit or out of nationalistic motivations. ***The outcome of that conflict might well be the most important single factor shaping Russia’s trajectory by 2020 and beyond.***

The “one size fits all” globalization model that was put forward during the last decade of the 20th century is now definitely obsolete. This does not mean at all that globalization might come to a stop or even be reversed over the next 15 years. On the contrary, it will move further ahead, unabated. ***But globalization will be less equated with Americanization and will as mentioned have more of an “Asian face”. This more diversified face of globalization will mean that it will proceed in the coming years in a more volatile context.*** Even when they will be able to harmonize their respective positions, the US and Europe will not anymore be in a position to dominate the agenda and the outcome of global negotiations whether on trade or environment issues or even on financial and monetary issues. In the latter domain, even though the US will maintain its clear prominence, the “obstruction power” of countries such as China or India will be strong enough to require that their priorities and interests be also taken into consideration.

➤ ***The politics of identity***

Globalization has magnified the importance of two notions: Identity and Diversity. They have potentially conflicting dimensions and that will have to be managed in parallel in the coming years. Given the centrality of these twin notions, their harmonious management will be a major challenge for national leaders as well as for the functioning of the global system.

With the advent of globalization, the information and communication revolutions and the migrations trend, diversity has become a central operating factor. It is not just a question for societies and corporations to “absorb” the diversity brought by the irruption of people coming from different regions, different cultures, ethnical backgrounds and religions. What counts, even more importantly, is the ability of leveraging diversity, of taking full advantage of it, in order to



spur creativity, to benefit from the potential offered by different cultures, to be able to tap talent worldwide.

One key asset of the US, so far, has been its remarkable ability to integrate — and play on — diversity. At the same time Europe has been ill at ease with diversity, and this notion is almost alien to Japan — which is a major handicap for this country in adjusting to one of the deepest trends and most demanding requirements of globalization.

But, in a parallel way, globalization has brought to the fore the craving for, and assertion of identity. We mean by that the complex mix of culture, values, and the way people and countries perceive themselves and are perceived by others. Globalization has been equated with Americanization and to some extent with the loss of identity. It is generating a sense of anxiety at being “overwhelmed” by a gigantic power that would sweep local culture and lifestyles. This was bound to generate a defensive reaction. So, globalization has in fact re-emphasized the element of identity, leading to its strong reassertion in all its forms — national, ethnic, cultural.

The revindication for identity as a reaction against the offensive intrusion of the Western culture and lifestyle is a major component in the appeal of militant Islam, especially among the young generation in the Middle East as well as in the Arab communities in Europe. It will remain so. It is the same factor that is feeding the revival of regionalism in Europe — as a reaction against a “European Union” being too much of an abstract and even a soul-less concept.

In this context, one should not be surprised that nationalism will remain a major driving force in the years ahead — continuing to play a major role in the actions, reactions, and decisions that will continue to shape the global landscape by 2020. This factor will also remain one major element slowing down the global integration of business. Suffice to see the national reactions that takeovers of a high profile national company — even by a “fellow” European company — continue to generate in Europe.

In the political domain, China, India, Russia will continue over the next 15-20 years to be countries where the political leadership will continue endlessly to play on the national sentiment every time it needs to activate that lever, knowing that the reaction will be instantaneous.

One major implication in the future is that trying to set global norms that ignore or go against deep-rooted identity elements or perceptions in countries or regions will meet significant difficulties in being implemented. At the same time, the tackling of major global challenges such as the protection of the environment, the fight against global drug trafficking and the new forms of criminality, the need to create the appropriate frameworks and *modus operandi* for effective multilateral action, will mean that this reassertion — or even exacerbation — of identity will have to be harnessed and kept under control.

Over the next 15 to 20 years — and possibly beyond — one key question will be how to deal with this trend of reassertion of very diverse identities throughout the world and to avoid that they collide and lead to conflicts? How will it be possible to reconcile the need to advance diversity — both as a necessity brought by globalization and as a requirement for greater dynamism and innovation — with the need to accommodate this craving for identity?

The risk — or prophecy — of a “clash of civilizations” that the rise of militant Islam seems to have materialized is not necessarily unavoidable. But it has become a very distinct possibility in the last few years. It does not need to be that way. The fact that we will be more and more moving towards some kind of “multifaceted” globalization in the years ahead highlights on a central issue: there has been a lot of attention over the last 15 years at understanding how economic globalization works, its implication for business; there has also been significant efforts



in trying to define some new rules of the games — for instance with respect to creating international accounting standards or global corporate governance standards. But at the same time, we are just beginning to realize and to understand the complex reactions that globalization and its impact are generating with respect to individual concerns, reactions and aspirations.

The way policy makers — political as well as economic — will understand and manage the Identity-Diversity equation in the years ahead will certainly be one of the major factors shaping the geopolitical and economic environment over the next decade.
