The keys to the new global balance
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Introduction

What kind of global economy will result from the great economic crisis that has so severely hit the Western world, particularly Europe, and from which some people already see the light at the end of the tunnel? What changes can be expected in an increasingly populated planet—especially in developing economies, but also increasingly populated by educated and elderly people? What challenges are involved in the new revolution of knowledge, fueled by a phenomenal increase in collaboration among people and a widespread use of technologies, which make society brim with new ideas and applications, as well as patents and intellectual property rights? And how will Spain emerge from this painful crisis? What can this country do to make the most of its strengths in an increasingly competitive global environment?

For two days (June 6 and 7) over 20 renowned experts in their respective and very diverse fields met in Madrid for the 10th anniversary of the Bankinter Foundation of Innovation to answer these and other questions, and to shed some light on the main underlying trends that will ‘reshape’ the economic landscape for the next two decades. Particularly, the experts came from different countries and analyzed the future from three angles, which were very consistent with each other: the flow of financial capital, flow of human capital, and flow of intellectual capital. This 3-pronged analysis was eventually applied to Spain in order to outline some roadmaps and recommendations for its economy to bounce back and overcome future challenges—some sooner rather than later.

From the talk at the meeting it is gathered that after this Great Recession—in which the Spanish economy has been stripped to the bare minimum and left with only a rocket-high unemployment rate—nothing will be the same: the world’s gravity center will definitely shift towards emerging countries, particularly in Asia-Pacific. This process of converging in developing countries started in the 1990s and has allowed them to increase their clout in global investments and savings. In fact, half the stock of the world’s capital will be found in emerging economies by 2030, according to the World Bank. Besides, the public sector—the weight of the state in the economy, the new, dynamic state-owned multinationals in emerging countries, the new regulatory zeal in many areas...—will take on an increasingly relevant role, in contrast with the role played by the public sector in the last
few decades. Given the growing clout in the world’s economy of sover-
reign funds, which have amassed billions of dollars along with glo-
balization, or the new, budding state capitalism in some developing
countries, this is becoming increasingly obvious.
Four issues to bear in mind over the next few years

Attendants came to the conclusion that some of the essential issues to bear in mind, by order of priority, include:

1. The spiritual capital (or how to re-infuse the capitalist system with values, following the severe confidence crisis suffered due to the subprime crisis that exploded in the United States in 2007 and the international financial disaster that ensued).

2. The future US energy independence—thanks to the ‘fracking’ technology, Washington may go from net importer to net exporter.

3. The importance of state-owned data in the field of IP, which opens new sectors to create new, profitable businesses.

4. The growing prominence of sovereign funds and the possibility of it resulting in the withdrawal from globalization, after decades of continuous integration.
Flows of financial capital: beware of the energy revolution in the US and sovereign funds in emerging countries

Attendants pointed out the re-emergence of the United States as a genuine power in energy. Fracking is a new, unconventional technology to extract natural gas. It is causing a sharp drop in energy prices in the US economy, which could go from importer to exporter of energy in a few years. It's a revolution through and through. Its first effects are already seen in the relocation of the manufacturing productions of many American companies, which now sense that manufacturing at home is becoming cheaper. This 180° turn will carry great geopolitical implications: relations between the US and OPEC and other oil producers, such as Russia, will change, and may even cause currency wars in the long term. Undoubtedly, it will all have an impact on the direction of future capital flows.

At the same time, emerging countries are accumulating a growing mass of millions and millions of foreign currencies that they cannot always invest in their countries—they would not absorb that much and it would create inflationist tensions. So sovereign funds, the state-owned investment vehicles, are concentrating increasingly more wealth as they raise fears due to their ultimate political motivations, since not all of them show transparent management practices and at times make decisions based on geopolitical, or purely political, reasons. Although when all is said and done, their greatest advantage is that they plan for the long-term and avoid herd behavior.

Hence, one of the trends experts envisage more clearly is the shift in power from the private to the public sector, which has taken on most of the former's debt, and that in some countries has led to the nationalization of banks and greater regulation and economic intervention. In addition, there are other phenomena, such as public companies appearing in emerging countries as well as a certain type of state-capitalism in developing countries. This shift has been interpreted by some as a loss of confidence in economic rationality and a clear set-back in business management. Emerging powers, such as China, hold a large portion of debt

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From a financial standpoint—where we are likely to see low interest rates and abundant liquidity in the fierce struggle for greater returns on investments—other factors that may change the scenario must be taken into account. One is climate change, which, if the worst-case scenario comes to being, will demand massive amounts of capital, especially from developing countries, where the rising temperatures of the planet may take the largest toll. The very real danger of globalization coming to a temporary halt or “de-globalization” was also highlighted. Any sort of paralysis would curb international flows of capital and trade, causing an economic contraction and a rise in unemployment. In any case, we will witness great alliances between the private and public sectors over the next few years, particularly in emerging countries, where big amounts of money will be required to undertake their gigantic investment plans in connection to the rise of the middle class: healthcare, educational reform, all sorts of infrastructures (ports, airports, highways, bridges...)...
Flows of human capital: countries that train their workers the most will grow the most

The direction of human capital flow will be shaped to a great extent by the rise of emerging markets—namely China and India—and will demand large investments in financial capital to pay for infrastructures in education or health care. Furthermore, it was foreseen that today’s world population of 7 billion people will increase up to 9 billion people by the end of the century, at which point the population will start decreasing after centuries of escalating growth. The truth is that over the next few decades the international society will follow different demographic cycles at different speeds: the population in areas such as Europe (particularly Eastern Europe) will decrease, while in others, such as Africa, will continue to grow. The population in other countries, such as China with 1.3 billion inhabitants, will plateau in a few years’ time to then begin declining, following a demographic maturity pattern similar to Europe’s. India, however, remains an unknown question.

Education, particularly secondary education and education for women will play a big role in this. Experts concluded that people are not shapeless masses or simple quantitative units; each of them has their own qualities. Human beings drive growth, the greater their education the greater the economic growth (and probably the more sustainable the growth too). Therefore it is essential to invest in education in order to grow more and more effectively. Even Europe or China have reason to expect that their citizens’ greater productivity will compensate for their demographic decline. It seems reasonable to think that even an ageing population, seen by everyone today as a burden on the economy and the public treasury, could have a positive impact. It could even favor more sustainable growth and happier lives! Statistics say that the greater the education, the greater the life expectancy, and the fuller, more active life.

That is why one of the great upcoming dilemmas is how to educate millions and millions of young people who aspire to higher education, especially in the poorest countries. It is a titanic challenge in China and India. Building hundreds of universities will not be easy. The massive online courses (MOOC) taught for free by some universities, particularly...
in the US, are one potential solution. Formal or informal students located anywhere in the world take these courses. But their scope and educational impact is questionable, both because of the language barrier and the lack of IT structures.

Most attendants also agreed on how skills in the highest demand by business people in the next few years will be digital skills, mental agility, communication skills, interpersonal relations, and the ability to work with a global perspective. Although it is becoming increasingly obvious that a better connection between universities and the labor market is needed, that languages are the key and that lifelong education of adults will be required as job security decreases and workers are expected to change jobs and companies several times over their career (not only in the United States). Over the next few years we can also expect to see more international circulation of creative talent seeking the best environment to develop their skills and creativity. Cities and governments would have to compete to appeal to the best professionals, regardless of their nationality.

Flows of intellectual capital: state-owned data are a goldmine for entrepreneurs

Finally, intellectual capital—described as everything that is intangible or not yet created—is being very much influenced by the global rise and democratization of education and new technologies, and the collaborationist spirit of today’s society. Intangible products continue to multiply, along with intellectual property rights and patents. Some experts gathered by the Bankinter Foundation of Innovation maintain that greater public use of the massive data currently accumulated by the state would open up a wealth of businesses and spur economic activity around human capital. From data on the weather or the genome to traffic information, there is a wealth of public statistics. Up until now, there are two business models operating in this field: the American model, which seems to be more profitable, and the European model, which is less so. At the same time, the Internet could serve
Science by facilitating the exchange of information among scholars worldwide. This could spur phenomenal economic growth. The Internet right now is not enabling the utmost use of scientific production. However, attendants concluded that excessive intellectual property rights cannot be imposed on intangible assets because they can smother innovation and curb experimentation, which is very much necessary in today’s collaborative society. In fact, the trend to standardize property rights worldwide could be a big mistake. The case of the entertainment industry shows how open innovation and flexible IP rights, far from killing the industry, can give way to a new, more dynamic and participative golden era, one that ultimately increases the market value in absolute terms.

Lessons for Spain

What can Spanish society learn from all these trends? Where should politicians place their focus in a scenario where emerging countries are moving up the ranks vis-à-vis Western countries, where capital flows are not scarce but are looking for good ideas to render their investment profitable, and where creative classes are willing to set up shop wherever they feel more comfortable to develop their entrepreneurial projects? Far from entering recurring discussions of the likes of “putting pressure on the job market” or “the financial reform,” attendants contributed with very creative ideas that—I believe—are quite complementary.
Recommendations

Among other measures, by order of significance, they recommended:

- Opening data from the Administrations to the public.
- Launching a campaign to galvanize the Spain brand.
- Setting up a program to appeal to investors.
- Creating Peace Corps for young unemployed graduates to acquire international experience.
- Eliminating all barriers we have built as a country against the arrival of the creative class, that productive class which, many believe, will be the key of the century.

It was also concluded that Spain is far too focused on Europe, whereas it should explore other regions, mainly in Asia, particularly in China, where the Spanish presence is currently insignificant. Latin America too: it is an emerging continent that has fared the international crisis pretty well. It still is a safe bet for Spanish investors. However, it was highlighted how Spain's natural location is Europe, and particularly, the European Union. Particularly now, after Germany's elections and Angela Merkel's renewed mandate for four more years, experts believe it is time for Spain to request public support for its oftentimes painful reform and austerity policies, so that Europe shows its commitment with Spain staying in the euro zone.

International strategies aside, some attendants pointed out the important role of politics and the risks involved for a society when politics are not correctly executed. Experts mentioned the need to fight rampant corruption, reinstate economic logic to the government's decision-making (which was lacking during the past economic boom, fueled mainly by the real estate bubble), and restore stability to the national territorial structure.