

Strategies to Revive Global Growth: A Scenario Analysis

RIETI World KLEMS Symposium on “Growth Strategy after the World Financial Crisis”
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Bart van Ark, The Conference Board



The diagnosis

Ten major trends presenting challenges and opportunities

Short-term

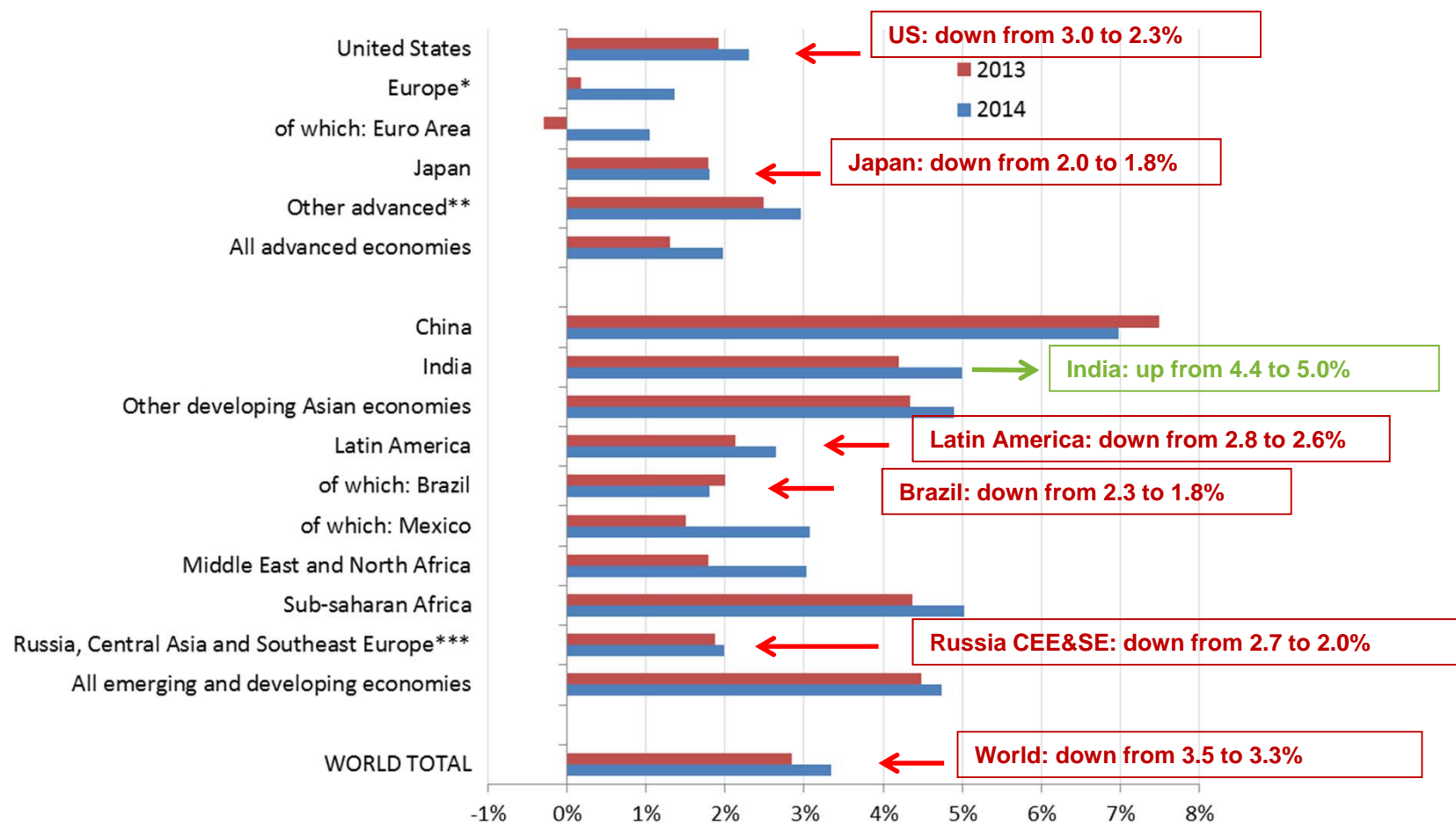
1. Among mature economies only **United States** shows most potential for continued faster growth beyond 2014
2. **Europe** and **Japan** are struggling to remain competitive in global economy while fighting off deflation
3. Gradually slowing economic growth in **China, India** and **South America – Southeast Asia** and **Africa** create a small positive
4. **Elevated risk of financial crisis in China**—freeze of capital markets, drastic cuts in investments
5. **Russia (and Ukraine), Western Asia** and the **Middle East** on the borderline of free market economies and autocratic command economies

Medium- to long term

6. Aging of population in mature economies has increased **labor market shortages**, especially for skilled labor, and reduces potential to accelerate productivity rapidly
7. Even largest emerging markets may begin using up their **demographic dividend**
8. **Global demand shifts to emerging markets** continue but at much slower pace than in previous decade
9. **Slow productivity growth** in emerging economies as transition to consumer- and services-driven economies proceeds
10. Slow pace of globalization with **narrow trade agreements**, coordination hurdles in dealing with **environmental challenges** and **major imbalances in energy supply and demand**



Update of global outlook suggests slight downward trend in near-term projections



**Europe includes 27 members of the European Union (excluding Croatia) as well as Switzerland and Norway.

**Other mature economies are Australia, Canada, Iceland, Israel, Hong Kong, South Korea, New Zealand, Singapore, and Taiwan Province of China.

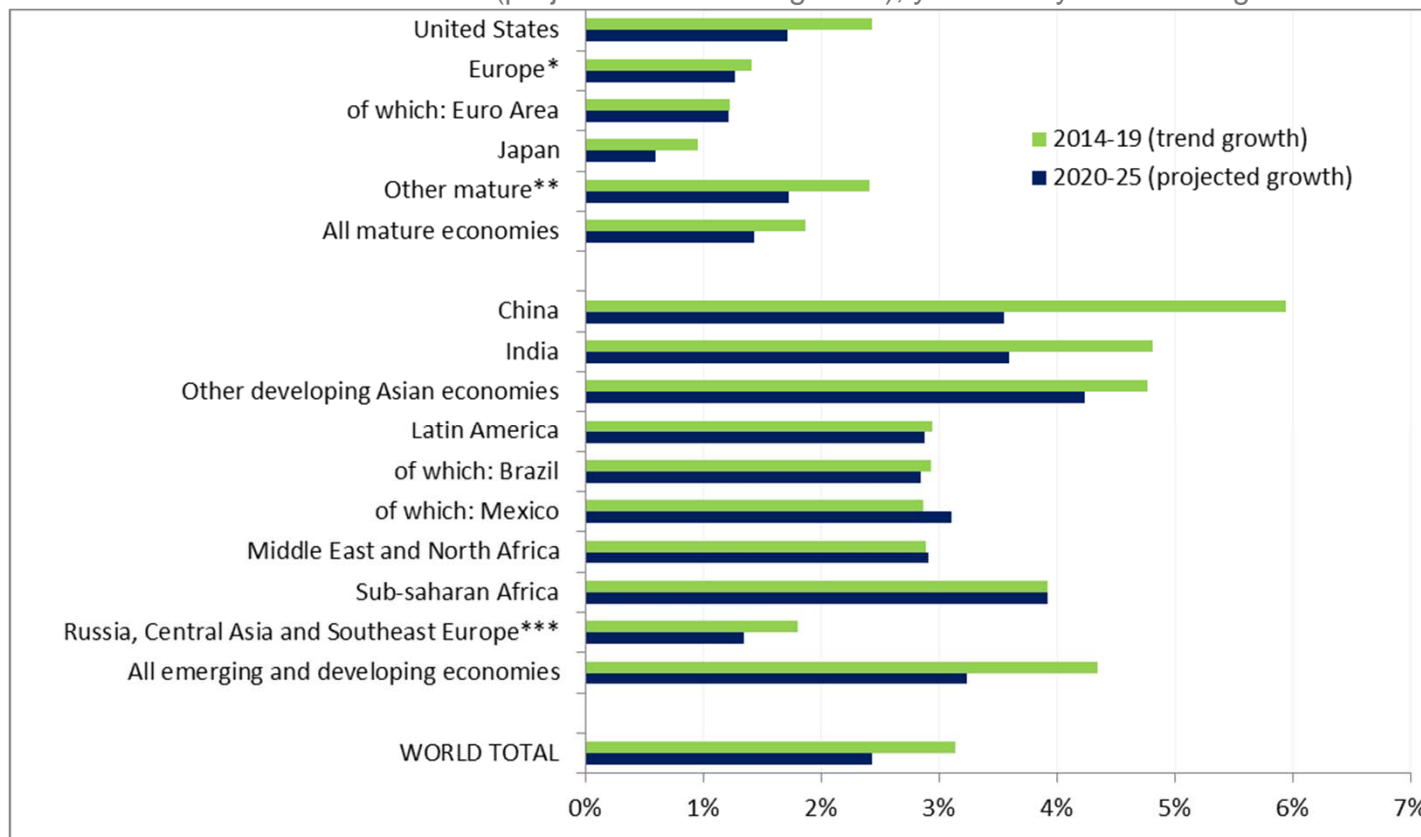
***Southeast Europe includes Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro, and Turkey.

Source: The Conference Board Global Economic Outlook 2014, update February 2014



Long term global trend will be slowing in mature economies, but much more dramatically in emerging markets

GDP Growth (projected and trend growth), year over year % change



*Europe includes all 27 members of the European Union (excl. Croatia), as well as Switzerland and Norway.

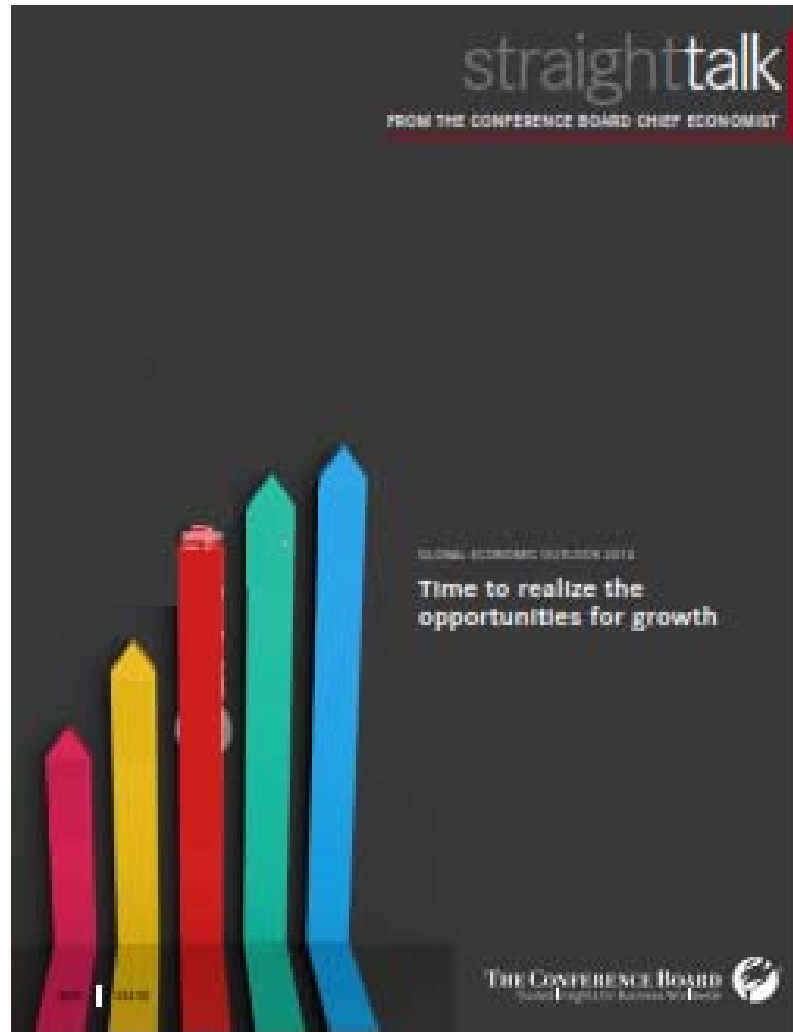
**Other advanced economies are Australia; Canada; Iceland; Israel; Hong Kong; Korea; New Zealand; Singapore; and Taiwan Province of China

*** Southeast Europe includes Albania, Bosnia & Herzegovina, Croatia, Macedonia, Serbia & Montenegro, and Turkey.

Source: The Conference Board Global Economic Outlook 2014, November 2013 (<https://www.conference-board.org/data/globaloutlook.cfm>)



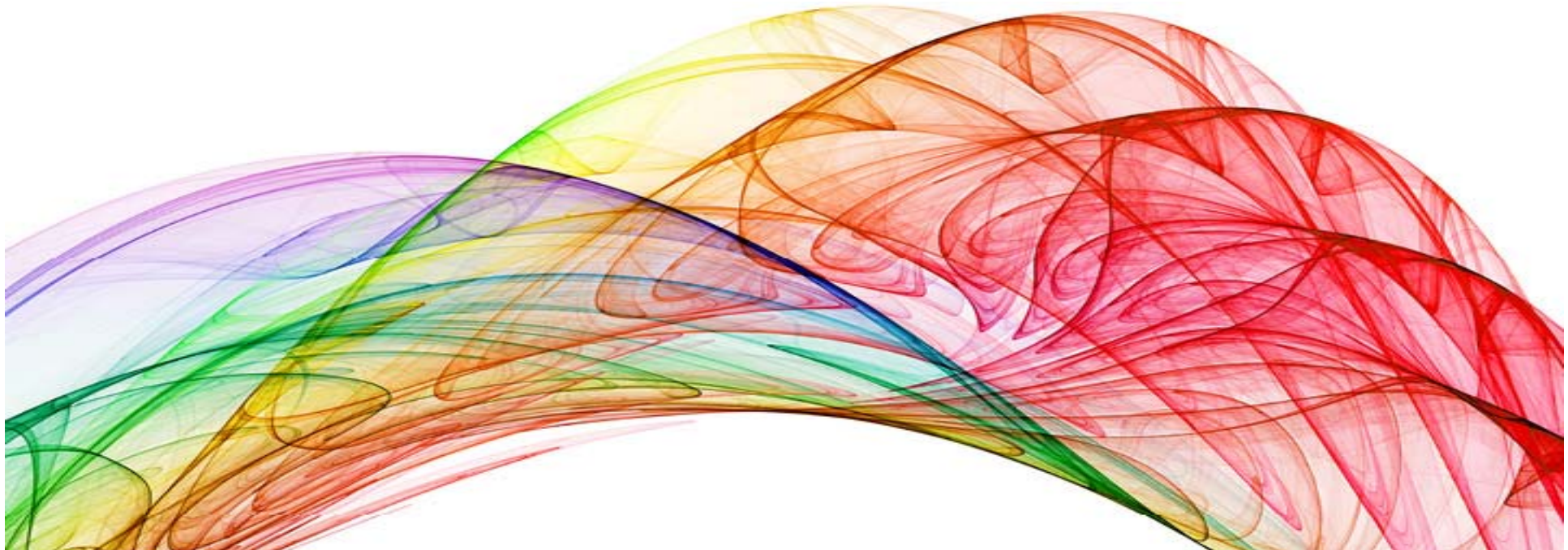
Time to realize the opportunities for growth ?



Business strategies to revive growth

The Conference Board CEO Challenge® 2014

People and Performance: Reconnecting with Customers and Reshaping the Culture of Work



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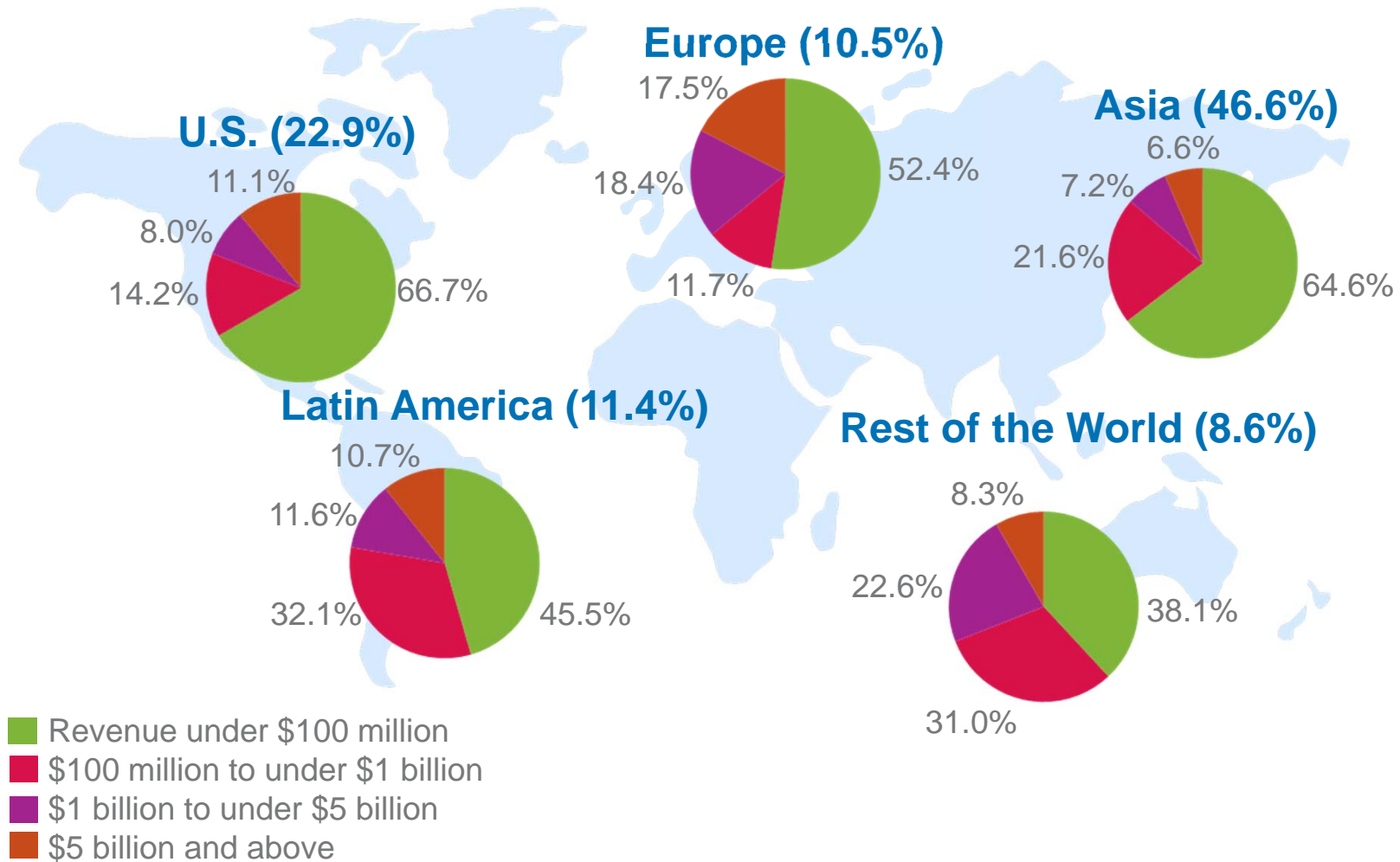
Despite still weak economic and business environment around the world, CEOs are seeking paths to faster growth

- Uncertainty abound: businesses still face tough economic and business environments around the world
- Immediate risks in the external business environment and concerns about regulation have dropped significantly on the list of challenges
- Current business focus is on a mix of internal growth drivers (human capital, operational excellence, innovation and customer relationships) dominate
- In times of slow growth, smart companies are repositioning themselves to win market share battles against global competition
- This wouldn't be the first time that a long period of slow growth makes way for a much more favorable growth path ahead.



CEO Challenge 2014 Demographics

1020 Respondents by Region & Revenue Size



Human capital links to innovation and operational excellence – increased focus on customers and brands

Global N=1,020	CHALLENGES 2014	Global 2013* N=729	Global 2012 N=776
1	Human capital	1	2
2	Customer relationships	4	7
T3	Innovation	3	1
T3	Operational excellence	2	NA
5	Corporate brand and reputation	8	9
6	Global political/economic risk	5	3
7	Government regulation	6	4
8	Sustainability	9	8
9	Global/International expansion	7	5
10	Trust in business	10	NA

*Operational Excellence was added to the list of challenges in 2013 to replace Cost Optimization. Trust in Business was also added in 2013 to replace Investor Relations. T=tie



Regional results reflect a global convergence on the most important challenges

Global N=1,020	CHALLENGES 2014	Asia N=479	Europe N=105	United States N=233	Latin America N=114	China N=139	India N=55
1	Human capital	1	1	2	2	2	1
2	Customer relationships	4	3	1	3	5	4
T3	Innovation	2	2	4	4	1	3
T3	Operational excellence	3	4	3	1	3	6
5	Corporate brand and reputation	5	7	T5	8	6	2
6	Global political/economic risk	T6	6	7	6	7	5
7	Government regulation	8	9	T5	5	9	7
8	Sustainability	T6	8	8	10	4	9
9	Global/international expansion	T9	5	9	7	10	8
10	Trust in business	T9	10	10	9	8	10

T=tie

Source: The Conference Board CEO Challenge Survey 2014.



Focus on People-Driven Strategies

Top Five Strategies to Meet the Top Five Global Challenges

	1 Human capital	2 Customer relationships	3 Innovation	4 Operational excellence	5 Corporate brand and reputation
1	Provide employee training and development	Sharpen understanding of customer/client needs	Create culture of innovation by promoting and rewarding entrepreneurship and risk taking	Seek better alignment between strategy, objectives, and organizational capabilities	Communicate corporate values to customers and key stakeholders
2	Raise employee engagement	Enhance quality of products/services	Apply new technologies (product, process, information, etc.)	Improve our organizational agility/flexibility	Enhance quality of products and processes
3	Improve performance management processes and accountability	Engage personally with key customers/clients	Find, engage, and incentivize key talent for innovation	Raise employee engagement to drive productivity	Increase investment in corporate brand communication externally
4	Increase efforts to retain critical talent	Tailor marketing, promotion, and communications campaigns to key customer needs	Engage in strategic alliances with customers, suppliers, and/or other business partners	Improve performance and accountability of senior management	Use social media and new communication technologies
5	Improve leadership development programs	Broaden range of products/services	Develop innovation skills for all employees	Improve performance and accountability of middle management	Improve alignment of business practices/management behavior with corporate values



Policy scenarios

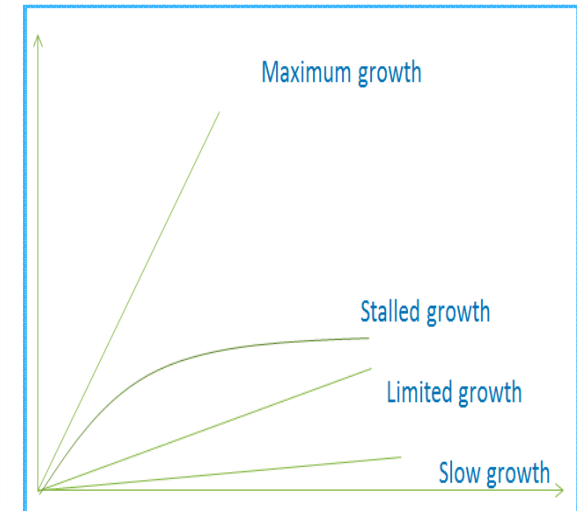
The two drivers for sustainable growth are broad investment agenda and reforms that drive productivity

- A broad investment agenda:
 - Investment in infrastructure, mostly intangible assets (human capital, digital economy, innovative property, economic competencies)
 - Balanced path of public and private investments in growth, including partnerships
 - Avoid that fiscal consolidation happens without reforms of social entitlements at the cost of growth-promoting investments
 - Capital funding for young and innovative firms
- A productivity-focused reform agenda:
 - Focus on market reforms that allows labor, capital and other resources to flow to the most productive activities
 - Accelerate global and regional economic integration (trade, financial flows and migration)
 - Increase transparency and tackle vested interest seeking rents



Stronger public and private investment together with reforms will drive resources to higher productivity

		Robust investment in the future			
Marginal reallocation of resources	2. Limited growth	4. High growth	Significant reallocation of resources		
	A country invests but does not reform sufficiently, thereby limiting the benefits of investments	If a country reforms and invests sufficiently and in tandem, it will grow above its trend			
Marginal reallocation of resources	1. Low growth	3. Stalled growth			
	A country neither invest nor reforms sufficiently, and banks on the status quo	A country reforms but does not invest sufficiently. Initial growth resulting from reform will peter out.			
		Lackluster investment in the future			



Source: The Conference Board Global Growth Scenarios, November 2013



The Global Economy: a flat world, or a world with mountains and valleys?

		Robust Investment in the Future			
Marginal Economic Integration	A Mountainous World	Flat World	Significant Reallocation of Resources		
	Secular Decline	Race to the Bottom			
		Limited Investment in the Future			

A Mountainous World

- ✓ Unequal pace of investment depending on debt burdens and demographic challenges
- ✓ Rapid flows in liquid assets (incl. "hot money") chasing key growth sources (labor, investment, innovation) are locked up in individual sectors countries and sectors
- ✓ While inflationary pressures ease debt burden, labor cost rises threaten living standards

Flat World

- ✓ Acceleration in global flows of productivity resources (trade, finance, migration) raise scale, competitive advantages and returns on investment, and support global rebalancing
- ✓ Mature economies find long-term path to resolve budgetary and debt challenges
- ✓ Major emerging markets rebalance internally, creating room for 2nd tier of exporting nations

Secular Decline

- ✓ Slow global growth and small home markets forces competition on the base of low prices
- ✓ Weak competitive pressures lessen incentive to invest in education & infrastructure.
- ✓ Deflationary pressures worsen debt resolution and slow growth prospects
- ✓ Unfulfilled promises to rising middle classes causes restiveness

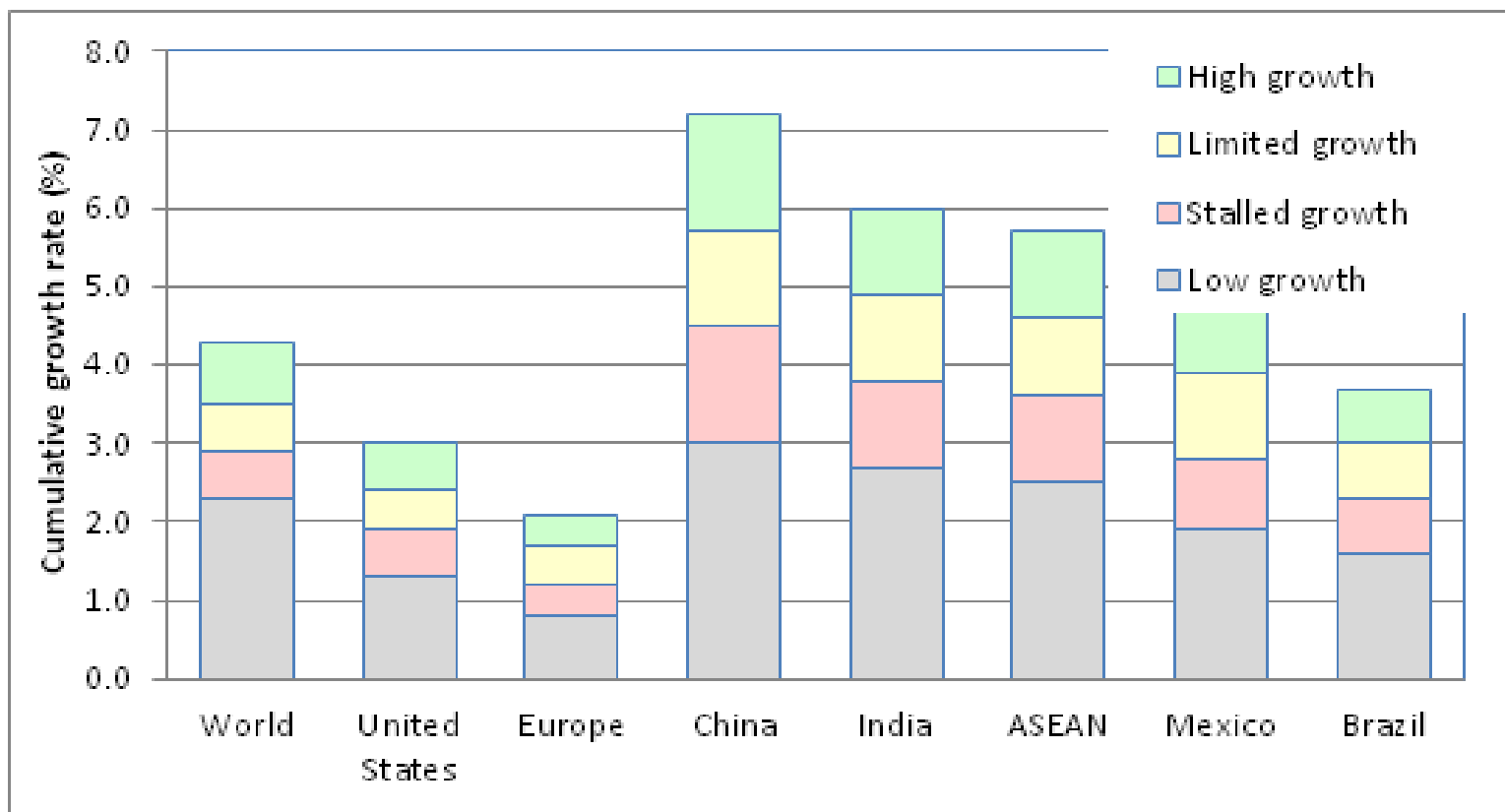
Race to the Bottom

- ✓ Global economic blocks compete for market shares in a stalled global growth environment
- ✓ Low investment in key growth areas (infrastructure, energy/environment, health care/education) significantly reduces returns
- ✓ Global capital desperately seeks better returns making growth more difficult to finance



The key dimensions of the scenarios (investment and reforms) have significantly different growth impacts

Cumulative contribution of scenarios to GDP growth around 2020 (*provisional estimates*)



Source: The Conference Board Global Growth Scenarios, November 2013



Time to realize the opportunities for growth?

- In the short-term, growth will depend on:
 - Orderly adjustments to monetary and fiscal stances around the world
 - Bring down unemployment, grow wages and restore purchasing power
 - Return to investment in mature markets
 - Commitment to reforms, especially in emerging markets
- In the medium-term, growth will depend on:
 - Tackle long-term demographic challenges through entitlement and educational reforms
 - Conclude comprehensive trade and other multilateral agreements
 - Focus investment agendas on innovation to drive productivity

