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## COMPETING IN CHALLENGING TIMES

New Rules

and the Role of Innovation



# Toward a New World Order

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The process of globalization is entering a new stage. Globalization traditionally involved business expanding out from developed economies to emerging economies. Today, however, the process flows in both directions and emerging economies are now gaining ground on the developed countries. Presently, emerging countries account for 49% of the world's GDP, 10% more than in 1990. In fact, experts say they will likely overtake developed countries over the next two decades. These emerging economies are rapidly gaining importance on the world stage in aspects as diverse as investments, natural resources, and even talent development. The growing recognition of these countries is evidenced by the G8 inviting Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa and South Korea to attend its recent summits. Meanwhile, the world is immersed in a period of major changes and uncertainty that could forever change the process of globalization as we have known it up until now. The crisis situation has accentuated the trend toward **State intervention**. Some interpret the "rescue" measures as a tacit admission that the capitalist system, as we know it, has cracks. Added to that is the inevitable feeling that a lack of ethical and moral conduct has pervaded in the events that triggered the crisis in the financial system.

This context, which points toward a **new, multipolar world order** characterized by the heightened importance of emerging economies, also presents a series of escalating **geopolitical challenges** (i.e., shortage of resources, aging of the population, etc.). At the same time, we are seeing the emergence of **new values in society** that demand greater international cooperation to ensure solidarity in the national and global order, as well as a readjustment to a way of living and doing business that is based on innovation and sustainability. In short, a time of **rewriting the rules of the game** that will mark the dynamics of the markets in which investors, companies, governments and consumers coexist. In order to survive, companies must strive to create competitive advantages in the different areas that will mark the future of the globalization process in the multipolar framework:

- Globalized trade.
- International capital movements.
- Human capital.
- Sustainability.
- Innovation.

A survey was carried out for this publication in order to identify those rules and frame them within each of these fronts.

## Globalized trade

World consumption is in crisis. For the first time in decades, we are seeing a reduction in the international flows of goods and services. This is compounded by economic recession, the aging of the population of developed countries and new global challenges, resulting in greater pressure on resources. The hope is that

emerging markets will revitalize world consumption. All signs suggest that the **new consumers** from emerging countries will give rise to new business opportunities. For that to happen, emerging countries must not fall into the temptation of establishing protectionist measures that entail a step backward in their market dynamics. In this context, Spain presents a **structural deficit in its balance of payments** that has only been sustainable as a result of the push coming from an internal demand that has compensated its scarce exports. The lack of competitiveness of Spanish goods and services, and the meager internationalization of the Spanish firm are two issues that the country must effectively deal with. With that objective, Spain should put more resources into promoting its image abroad, particularly in Asia.

### International capital movements

The tide is turning with regard to international investment flows. Whereas a few years ago investments originated from developed economies, they are now increasingly coming from emerging countries. Over the past few years **sovereign wealth fund** investments have become highly valuable in developed countries, arousing suspicion as to their true motivations. While these operations could potentially alter the capital of many companies, the need for liquidity has opened the way for them. Meanwhile, we have also seen increases in the flows of capital among emerging countries (E2E). The trend is for emerging multinationals to invest first in neighboring countries with cultural similarities and established trade ties. Spain has also focused its investments on destinations with kindred political and cultural makeups, primarily within the euro area and Latin America. Nevertheless, the fast-growing markets, East Asia in particular, play a vital role in the new, multipolar order while having played a minor role in terms of the destination of Spanish investments and exports. As such, **boosting the volume of investments in emerging markets** should be a top priority on Spain's investment agenda.

### Human Capital in the Multipolar World

The battle for the **scarce talent resources** has begun. **Talent** to change the ethical values of companies, talent to innovate, talent to deal with the major challenges that will be handed down to future generations, namely: global warming, demographic changes and the sustainability of the capitalist system. In an environment in which changes take place in a heartbeat, talent springs up from a variety of sources and relocates. The countries that successfully create, attract, develop and retain talent will hold a prominent position in the new power structure. China and India understand this and climb up each year in the international talent rankings. The success of different countries and economies depends on several factors, such as the prestige of their universities, the research opportunities available and the professional supply offered by their business sector. Achieving that will require successful cooperation across the board, from families to the educational system, business and government. For Spain, talent management is perhaps even more

important: talent is needed to increase the low productivity and competitiveness of its production model.

### The Challenge of Sustainable Development

**Sustainability** is in vogue. With emerging countries adopting the production and consumption patterns of developed countries, the pressure on resources is increasing and thus the problem is worsening.

From the ashes of the crisis, we are seeing the emergence of a new type of sustainability that is, in fact, the basis for the rest: “**ethical**” sustainability. Executives are accused of having a lack of principles and the capitalist system, of having prioritized speculation over effort, responsibility and ethics. The feeling that something must change puts additional pressure on business and government practices. No company can single-handedly resolve the issue of climate change, however the principles of Corporate Social Responsibility (CSR) could make a difference when defining the organizations and leaders whose responsibilities extend beyond the profit and loss statement. **Spain** has a long road ahead to achieve sustainability. Reducing its heavy foreign **energy dependence**, increasing the importance of renewable energy and investing in energy efficiency are just a few of the measures needed. An even more ambitious but equally necessary objective is to **change** the Spanish **production model** in order to increase its productivity and competitiveness, which must happen if the country wants to guarantee economic sustainability in the new, multipolar world.

### Innovation

Major innovations come at times of recession. Hard times require companies to transform their businesses to adapt to an ever-changing environment, and even more so in times of crisis. When the recession cycle ends, the countries and companies that have innovated, demonstrated a long-term vision will be better prepared to face the next few decades. The trend seems to indicate a change of direction and that developed countries will be the ones progressively adopting the innovations of **emerging countries**. Singapore, South Korea, Hong Kong, China and India are establishing themselves as **innovative countries** with internationally renowned research centers. **Spain**, for its part, is in danger of stagnating halfway between the highly innovative economies (e.g., United States, Japan) and those that, up until now, have been considered low-cost producers (e.g., China, India, Poland). Cooperation between Government, University and Business must be improved, in order to create a more effective R&D and Innovation strategy, increase technological innovation and improve human capital.

Predicting the future is not only difficult but in fact risky. Nevertheless, this publication aims to offer some insight into the impact of the crisis on the evolution of the capitalist system. In addition, the following chapters will explain the chan-

ges that are shaping a multipolar world with respect to the aforementioned factors (globalized trade, international capital movements, human capital, sustainability and innovation). We will approach the subject from a macroeconomic point of view before discussing in depth the rules that will allow companies to successfully deal with the new situation, differentiating between the companies of developed and emerging countries. Finally, we will explain the situation of Spain in each of these areas and the specific rules for Spanish companies.