THE WORLD IN RESET MODE

AN ECONOMIC OUTLOOK FOR 2017, AND BEYOND

STEPHANE GARELLI

PROFESSOR AT IMD AND AT THE UNIVERSITY OF LAUSANNE, SWITZERLAND,
FOUNDER WORLD COMPETITIVENESS CENTER

TRONDHEIM, 21 SEPTEMBER 2017
THE FRAMEWORK FOR SUCCESS

THE MANAGEMENT OF EFFICIENCY

THE MANAGEMENT OF CHANGE

THE GLOBAL ENVIRONMENT

TECHNOLOGY

VALUES IN SOCIETY
IS IT A RECOVERY?

GDP GROWTH
12 MONTH PERIOD

Q2
Q1

TRONDHEIM, 21 SEPTEMBER 2017

STEPHANE GARELLI
INFLATION: UP AND DOWN?

INFLATION IS PAYING

30 euros
FOR A HAIRCUT

WHICH USED TO COST

20 euros

WHEN YOU HAD HAIR…
RECONCILING
HARD DATA
AND
SOFT DATA
STEPHANE GARELLI
TRONDHEIM, 21 SEPTEMBER 2017

A STRANGE ADVICE?

“PLEASE DON’T CONFUSE ME WITH FACTS!”

Anonymous banker…
SOFT DATA (STOCK MARKET)?

“ANIMAL SPIRITS?”

REVENUES

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenues</th>
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</thead>
<tbody>
<tr>
<td>Tesla</td>
<td>US$7bn</td>
</tr>
<tr>
<td>Ford</td>
<td>US$151bn</td>
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PRODUCTION (cars)

<table>
<thead>
<tr>
<th>Company</th>
<th>Production</th>
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</thead>
<tbody>
<tr>
<td>Tesla</td>
<td>76,000</td>
</tr>
<tr>
<td>Ford</td>
<td>6.7m</td>
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</table>

MARKET CAPITALIZATION

<table>
<thead>
<tr>
<th>Company</th>
<th>Capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tesla</td>
<td>US$61bn</td>
</tr>
<tr>
<td>Ford</td>
<td>US$45bn</td>
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</table>
EXPECTATIONS, EXPECTATIONS…

SHARE PRICE

GROWTH AND INCOME

Amazon.com, Inc.
SWX: AMZN - 1 Sep, 09:11 CEST

949.50 CHF +9.50 (1.01%)

1 day 5 day 1 month 3 months 1 year 5 years max

Amazon’s Long-Term Growth
Amazon’s revenue and net income from 1997 through 2015 (in billion U.S. dollars)

Revenue Net income

Source: Amazon, statista

TRONDHEIM, 21 SEPTEMBER 2017

STEPHANE GARELLI
GDP ACCOUNTS ONLY MONETIZED TRANSACTIONS…

THE ADVICE OF KEYNES…

FORECASTING THE ECONOMY IS ANTICIPATING THE ANTICIPATIONS OF OTHERS

JOHN MAYNARD KEYNES, 1883 - 1946
SUMMARIZING THE SITUATION
“DO WE HAVE MONEY OR NOT...?”
A REAL PROBLEM

UNEMPLOYMENT OF LABOUR

UNEMPLOYMENT OF MONEY
ARE YOU WORRIED?

BUT, I AM YOUR BROKER...
WHO HAS MONEY?
WHAT ABOUT CENTRAL BANKS?

TOTAL BALANCE SHEETS: 9 CENTRAL BANKS

- **Federal Reserve**
  - 2003: $3,560BN
  - 2008: $7,580BN
  - 2016: $17,650BN

- **Bank of Japan**
  - 2003: $17,650BN

PLEASE WAIT YOUR DOLLARS ARE PRINTED!
SOVEREIGN WEALTH FUNDS

- GOVT. PENSION FUND: $998BN
- CHINA INVEST. CORPORATION: $813BN
- SAFE INVEST. COMPANY: $441BN
- HKMA: $456BN
- ABU DHABI INVEST. AUTHOR.: $828BN
- KUWAIT INVEST. AUTHOR.: $524BN
- SAMA: $514BN
- QATAR INVEST AUTHOR.: $320BN
- GOVT. INVEST. CORP.: $359BN

Total: $5,177bn
COMPANIES HAVE MONEY...

CASH AND EQUIVALENT

- USA: $1.700BN
- Japan: $2.100BN
- EU: $1.300BN
- World: $5.500BN

Listed companies 2017 (Bloomberg estimates)
PEOPLE HOARDING CASH?

- Briefcase: $2.4m
- Under your bed: $100.6m
- Your hotel room: $11.900m
PRESIDENT TRUMP’S MAGICAL MYSTERY TOUR
CUT CORPORATE TAXES:  15%

DEREGULATE:  BANKS - ADMINISTRATION

INVESTMENT IN INFRASTRUCTURE:  $550bn - $1000bn

DEFENSE SPENDING:  + 10%
THE NEW PROPOSED TAX CODE

- **CORPORATE TAX RATE:**
  - 35% → 15%
- **BORDER ADJUSTMENT**
  - NO TAX ON EXPORTS
  - NO DEDUCTION IMPORTS
- **FULL EXPENSING**
  - ONE YEAR WRITE-OFF CAPEX
- **NO INTEREST**
  - DEDUCTIBLE ON LOANS
- **BRING PROFITS BACK**
  - 8.75% RESHORING CASH
BRINGING THE MONEY BACK HOME...

+$1.3tn

50 US COMPANIES = $1,100bn

5 US TECH COMPANIES = $504bn

$256BN

$111BN

$70BN

$61BN

$52BN

93% of Cash abroad

90% of Cash abroad

58% of Cash abroad
PRINCIPLES BEHIND THE GLOBAL TAX REFORM

- TERRITORIAL REPORTING
- TRANSPARENCY
- EQUALITY OF TREATMENT
- PEER REVIEW

BUT: NO TAX RATES HARMONIZATION!
THE DODD-FRANK ACT AT STAKE? (7,000 Rules)

600 REGULATIONS
= $743bn

Source: The Trump Administration

THE VOLKER RULE:
297, 000 WORDS

NEW TESTAMENT:
181,253 WORDS
**INFRASTRUCTURE SPENDING**

Investment as a % of PIB

**WORLD-WIDE = 3.6%**

- **Norway = 3.7%**
- **China = 8.5%**
- **India = 5.2%**

<table>
<thead>
<tr>
<th>Country</th>
<th>1.2%</th>
<th>1.8%</th>
<th>2.0%</th>
<th>2.1%</th>
<th>2.4%</th>
<th>2.6%</th>
<th>3.7%</th>
<th>3.9%</th>
<th>4.4%</th>
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<tbody>
<tr>
<td>Norway</td>
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**STREETS, SEWER, WATER, POWER...**

24 – 29 YEARS OLD

**GLOBAL NEED = $3.7tn**

**INVESTED = $2.7tn**

**GAP = $1.0tn**

Annually

Source: BEA, 2015

AT WHAT COST?

US FEDERAL DEBT
$19.9tn
(101% of GDP)

TRUMP’S PROGRAM
$7.4tn

TRONDHEIM, 21 SEPTEMBER 2017

STEPHANE GARELLI
“I AM THE KING OF DEBT,
I DO LOVE DEBT,
I LOVE PLAYING WITH IT…”
A FEW GLOBAL UNCERTAINTIES...
   - EXIT BILL (55bn?)
   - CITIZEN RIGHTS
   - IRELAND

2. **THE FUTURE RELATIONSHIP** (Jan – June 2018)
   - MARKET ACCESS
   - FINANCIAL SERVICES
   - DISPUTES?

   - JURIDICTION
   - FREE MOVEMENT
   - AGENCIES

4. **RATIFICATION** (Nov 2018 – March 2019)

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**759 AGREEMENTS WITH 168 COUNTRIES**
OIL PRICE: CONFLICTING FORCES...

Price Pressure on Oil Price

- US Shale Oil: 4.9 b/d
- Renewables: 60% Capacity Growth
- Stocks: 278 days
- OPEC/Russia: Production deal
- Discoveries?: Lowest in 60y, 174/450
- Economic Recovery

Source: Data International Energy Agency, 2017
WHO OWNS WHAT?
THE “MAGIC” FORMULA

GLOBALIZATION + CASH + TAX OPTIMIZATION

= $3,600bn (2016)

M&A AND CONSOLIDATION

STEPHANE GARELLI
A REVOLUTION IN CORPORATE OWNERSHIP

NEWCOMERS’ GLOBALIZATION

EMERGING ECONOMIES COMPANIES
CHINA BUYING...

OUTBOUND M&A 2016: $225bn

20%
EVEN MORE MONEY...

- **SoftBank**
  - PRIVATE EQUITY FUND
  - $93 billion

- **Alibaba Group**
  - MONEY-MARKET FUND
  - $165 billion
AND NOW THE CENTRAL BANKS?

buying shares...

$98bn (200 of 225 Nikkei shares)

$130bn (50% in the US)
IN FULL TRANSPARENCY?

“IF I SEEM UNDULY CLEAR TO YOU...

YOU MUST HAVE MISUNDERSTOOD WHAT I SAID”

ALAN GREENSPAN 1926 -
WHO IS DOING WHAT?

CLOUD COMPUTING

ADVERTISING

BATTERIES

WATCHES

ELECTRONIC PAYMENT
TECHNOLOGY BECOMES INTELLIGENT...
ROBOTS OUTPERFORMING HUMANS?

1997: DEEP BLUE (IBM) - CHESS
2016: ALPHAGO (GOOGLE) – GO
2017: LIBRATUS - POKER

JOBS
ASSEMBLING, TRANSPORTATION, HEALTH, AGRICULTURE, FINANCE, TAXATION, TRANSLATION, etc.

“TAX THEM”

WHAT IS A ROBOT?

“TAX THEM”

BILL GATES

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“TAX THEM”

BILL GATES
ARE HUMAN VULNERABLE?

FAST
RE-PROGRAMING

SLOW
BIOLOGICAL EVOLUTION
“WE ARE LOOKING FOR SOMEONE WITH YOUR EXACT QUALIFICATION... BUT A ROBOT VERSION!”
ARE ROBOT VULNERABLE?

COMPETENCE IS NOT COMPREHENSION

ULTIMATE WEAPON UNPLUG!
A NEW PARADIGM FOR OFFSHORING?

CHEAP MACHINE – BRAIN POWER

AI = DATA-DRIVEN LEARNING MACHINES

COMPANIES

CHEAP MAN-POWER

OFFSHORING

CHEAP BRAIN-POWER
THE IMPACT ON JOBS

OFFSHORING
BLUE COLLAR JOBS

SOCIAL UNREST

EARLY DE-INDUSTRIALIZATION

ONSHORING
WHITE COLLAR JOBS
STILL A “NO ACCESS” WORLD

- No electricity: 15%
- No access to clean water: 11%
- No identity: 20%
- No bank account: 39%
- No internet: 55%

Total without access: 7.5bn
A “YOUTHQUAKE”!
UNDERSTANDING MILLENNIALS (age 18-35)

“MEISM”
Self
Fulfillment
and
“Narcissism…”

THE “SELFIEs”
GENERATION
ESCAPING REALITY…

Time spent with a screen

SMARTPHONE

TV

PC

TABLET


10 HOURS, 39 MINUTES.

-7H.30 SLEEPING

CONFRONTING REALITY:

6 HOURS per day

TRONDHEIM, 21 SEPTEMBER 2017
UNDERSTANDING MILLENNIALS (age 18-35)

“MEISM”
Self Fulfillment and “Narcissism…”

LITTLE AFFILIATION
Political, Religious…
CONCERNED State of the World
“WE HAVE A GENERATIONAL CHALLENGE:

NOT ONLY TO CREATE NEW JOBS,

BUT TO CREATE A RENEWED SENSE OF PURPOSE,

NOT ONLY FOR YOURSELF,

BUT ALSO FOR OTHERS!”

MARK ZUCKERBERG
1984 -
UNDERSTANDING MILLENNIALS (age 18-35)

“MEISM”
Self Fulfillment
and
“Narcissism…”

ENTITLEMENT
Demanding
And
Intrusive

LITTLE AFFILIATION
Political, Religious…

CONCERNED
State of the World
“NEVER DO WRONG, ESPECIALLY WHEN SOMEBODY IS LOOKING!”

MARK TWAIN, 1835 - 1910
UNDERSTANDING MILLENNIALS (age 18-35)

MEISM

Self
Fulfillment
and
“Narcissism…”

ENTITLEMENT

Demanding
And
Intrusive

LITTLE AFFILIATION

Political, Religious…

CONCERNED
State of the World

OWNERSHIP (SHARING)

“Free is Cool!”
I LOVE YOUR MOVIES
I HAVE PIRATED THEM ALL
THERE IS NO FREE LUNCH…

IF YOU THINK THAT A PRODUCT IS FREE

THEN YOU ARE THE PRODUCT!

TIM COOK, CEO APPLE
A NEW FAUSTIAN BARGAIN?

IF IT IS FREE...

THEN YOU CAN HAVE ALL THE INFORMATION ON MY PRIVATE LIFE
"HOW CAN I TRUST YOUR INFORMATION WHEN YOU ARE USING...
SUCH AN OUTDATED TECHNOLOGY!"
THE WAGE CURVE

Source: Hired company, 2017
Consequence

Today, changes in society have a deeper impact on companies than changes in management.

WHAT DOES IT MEAN FOR COMPANIES?
MANAGING VALUES IN A COMPANY

- > 60 HOURS A WEEK
- COMPANY ANIMALS
- MOBILE
- SUCCESS DRIVEN
- FULLY DEDICATED
MANAGING VALUES IN A COMPANY

COMPANY ACHIEVEMENT
WORK / SUCCESS

SOCIAL ACHIEVEMENT
WORK / LIFE BALANCE

PERSONAL ACHIEVEMENT
LIFE / LIFE BALANCE

- < 40 HOURS A WEEK
- LIFE QUALITY
- IMMOBILE
- LIFE-LIFE BALANCE

TRONDHEIM, 21 SEPTEMBER 2017

STEPHANE GARELLI
DO NOT TAKE ANYTHING FOR GRANTED...

THE LAW OF “UNINTENDED CONSEQUENCES”

OLD DELHI – BRITISH COLONIAL TIME

RAISING SNAKES

SNAKES BACK IN THE STREETS