

## **Gordian knots of the 21<sup>st</sup> century**

### **Conference problems<sup>1</sup>**

A series of recent conferences, books and papers identified enormous challenges that Europe faces in the 21<sup>st</sup> century global knowledge economy: Kuklinski (2007), Kuklinski, Skuza (2003), Kuklinski, Pawlowski (2005a), Kuklinski, Pawlowski (2005b), Kuklinski, Skuza (2006), Kuklinski, Lisinski, Pawlowski (2006), Opala, Rybinski (2007), Radzikowski, Rybinski (2007), Rybinski (2007a), Rybinski (2007b), Tausch (2007).

Today Europe is unable to deal with these challenges. Politicians are strategically-blind and instead of creating a strategic long-term vision for Europe they engage in myopic actions aimed at increasing popularity ahead of next elections. Tausch (2007) refers to these short-term action plans as “destructive creation”.

It is high time to replace “destructive creation” with a strategic vision for Europe. Ability of Europe to rise to this challenge will be tested by its reaction to most important global issues. Following professor Antoni Kuklinski we refer to these issues as “Gordian knots of the 21<sup>st</sup> century”.

The list of Gordian knots can be very long. In order to focus attention on the few key factors shaping global economic, social and geo-political landscape, Opala, Rybinski (2007) defined the following four Gordian knots:

- 1. Limits to growth: scarce energy and natural disasters**
- 2. Aging of the developed world and the 21<sup>st</sup> century as the age of migration**
- 3. The rise of China, the failure of democracy**
- 4. Rising significance of global financial markets and emergence of new global players**

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<sup>1</sup> This speech was presented at the meeting of the Polish Association of the Club of Rome held at the Business Centre Club on 21 January 2008.

Evidence presented in Opala, Rybinski (2007) allows to draw the following conclusions:

**First**, while the natural resources constitute limits to growth in the medium run, the humanity ability to develop disruptive innovations will challenge those limits in the long run, while higher output volatility and possibly abrupt changes in relative prices do lie ahead. We are much more concerned about the problem of environmental effects of human's development. Although Club of Rome's report underlined possible consequences of further ecological imbalance, too little efforts have been made so far despite the fact that the first effects of irresponsible behaviour are already materializing.

**Second**, Europe is rapidly aging. This undeniable fact will become a serious challenge for economic development in the 21<sup>st</sup> century as ageing means less people able to work and more people to take care of. While there were 4.3 persons in the working-age per older person in 2005 it would be a half of that in 2050. We drew two possible scenarios for Europe. First, Europe would make an effort to improve productivity of its economy and to rise employment rate to the new heights. This would however require adopting of a long term and comprehensive vision, with an indispensable political will and agreement on reforming of today's form of European social model. Second, if the first path was not chosen, Europe would be condemned to huge inflow of migrants from regions with much younger society, mainly Africa and Asia.

**Third**, in the last decades of the 20<sup>th</sup> century the most successful growth pattern among all world economies was recorded in the non-democratic Newly Industrialized Economies in Asia (South Korea, Taiwan, Hong Kong, Singapore). At the beginning of the 21<sup>st</sup> century incredible civilization jump in the largest country of non-democratic group, that is China, can be observed. China will probably become the strongest and the most competitive economy in the world within next few decades. It is already setting up strong alliance with Africa and thus crowds out Europe and the United States from African economic landscape. The share of China in global resources usage is growing, together with growing share and strength of Chinese enterprises on global markets. China is the world's largest exporter of computer equipment, its intellectual capital is on the rise and the number of higher education students is larger than in the United States and the European Union taken together. China is the world's leader in capital exports and thus is becoming a "global store" as well as "global bank". Next centuries will bring rises and falls of countries and regions. It seems that, as Great Britain lost its power to the United States in the 20<sup>th</sup> century, in the 21<sup>st</sup> century China will be the most powerful player on the economic, political and cultural scene with Europe and perhaps the

United States becoming “the Great Britain of the 21<sup>st</sup> century”. The strategy of the European Union have not taken this likely scenario into account so far. It can be seen for example in the Europe’s resistance for greater representation of China and other developing countries at Bretton Woods institutions, which consequently may lead to development of strong alternative regional financial institutions and thus to weakening World Bank’s and IMF’s global mandates. If Europe wants to keep its position as a important global player, radical change of strategy is needed with the comprehensive vision of strong and competitive Europe in 2050. But the question is whether small European democracies living in the 4-years election cycle can abandon destructive national protectionism and short-term political goals to create such a vision.

**Fourth**, the role and importance of financial markets soared in the last three decades. Global bond and equity market capitalization rose from nearly 70% of the global GDP in 1980 to over 230% in 2005. At the same time cross-border financial claims rose from 5% to 14% of global GDP. There was an explosion of derivative markets. Rise of China and oil exporting countries where huge amounts of assets are managed led to emergence of new types of global investors. It is estimated that in 2012 Asian central banks and sovereign wealth funds based in Asia and in oil exporting countries will have amassed some 12 trillion dollars of assets. Large part of those assets will be invested on the global financial markets with rising significance of investments carrying credit risk (equities, corporate bonds). Those developments bring much concern in Europe and in the United States. There are voices that the protectionism policy must be introduced to avoid the possibility of taking charge of multinational corporations by the capital flowing from non-democratic countries. It seems that the era of Washington consensus which assumed removing barriers to entry for foreign goods and capital is ending and the world is moving towards protectionism, especially in the field of capital transactions. In response, gradually, capital flows will be redirected to fund developing countries corporations and the relative value of “guarded treasures” in the West will gradually fall over time. It might in turn lead to development of the new “axis of power”, with acceleration of Asian and oil exporters investments in Asia and Africa. This scenario of European financial markets marginalization can be avoided if global agreement on “transparency-openness-minority-passivity” (TOMP) is concluded where the capital account in developed countries remains open to developing countries investors in exchange for investors’ commitment to full transparency of investments, for their commitment to be passive investors and to hold only minority stakes. TOMP should also assume full reciprocity.

**To sum up**, we call on the Club of Rome to broaden its discussion. What appeared as the main Gordian knot of the 21<sup>st</sup> century – limits to growth – some 30 years ago should now be seen in a broader context. Europe has immense challenges and opportunities lying ahead: aging and migration versus productivity dilemma, the rise of China, the growing global role of financial markets and the emergence of new investor class. It is high time that the Club of Rome warns politicians which so diligently take Europe towards the dead end called global marginalization. Lack of strategic vision, national patriotism, protectionism, inability to see developing countries as legitimate global players. All these strategic weaknesses will strike back and will lead to weak Europe, unable to play an important global role in the 21<sup>st</sup> century. It is not too late to avoid this gloomy scenario.

We postulate that the best way to launch a wide debate on Europe's future is to continue a series of conferences organized by professor Kuklinski. The next international conference should be titled "Gordian knots of the 21<sup>st</sup> century". A very tentative agenda could look as follows:

- I. What are the key assets Europe needs to become the leading world region in the 21<sup>st</sup> century?
  - a. Knowledge, structural, relationship and innovation capital
  - b. Need to prepare Europe's Intellectual Capital assessment
  - c. ...
- II. Can global energy crisis be avoided? What should be the Europe's response?
  - a. The race between demand for energy and the supply of disruptive innovations
  - b. Energy and security, what if Russia shut off all pipelines for a year?
  - c. Do biofuels make sense?
  - d. A vision for green Europe. Threats and opportunities.
  - e. ...
- III. Aging and migration. What policies are needed in Europe?
  - a. Two million left. How to transform "brain drain" into "brain gain"?

- b. ...
- IV. The rise of China and the failure of democracy. Is democratic Europe in danger?
  - a. Imagine China in 2020 (and 2050). What are the markets that WILL NOT be dominated by China? Why? Have they been born yet?
  - b. Understanding China strategy: Chinafrica.
  - c. Can democracy challenge meritocracy in 21<sup>st</sup> century? What should be done to make it happen?
  - d. Failing Bretton Woods institutions. What should be the next steps in reforming global governance to ensure key role played by Europe?
  - e. ...
- V. Rising significance of financial markets and the emergence of new global players
  - a. Global imbalances. Why inter-temporal strategic blindness of US households allows China leader to crash world markets with one word, if he wishes to?
  - b. Sovereign Wealth Funds, will they buy America and Europe?
  - c. How to avoid protectionism scenario?
  - d. World financial markets in 2020 (and 2050). Moving from dollar world into three-currency world: dollar-euro-asian (renminbi)
  - e. ...
- VI. Europe: the new vision 2020 (and 2050).

We are convinced that organizing a large international conference under the auspices of the Club of Rome could create a proper discussion platform. In-depth analysis, dialogue, honesty, mutual understanding combined with outside-the-box thinking could lead to a formulation of new vision for Europe. Without new vision and new strategic plans Europe's future looks bleak. While US can loose global dominance and become the Great Britain of the 21<sup>st</sup> century, Europe may risk becoming Argentina of the 21<sup>st</sup> century<sup>2</sup>. Let us repeat, it is not to late avoid this gloomy scenario.

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<sup>2</sup> Argentina had GDP per capita close to US level in late 19<sup>th</sup> century. After a series of strategic mistakes it fell to less than a third.

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