PERIODICAL #19
FROM GENESIS TO REVELATION

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Plus:
The Stern Stewart Institute’s Annual Summit Review and Poll Results
Will 2019 be a lost year? I began to wonder at the CES held as we know each January in Las Vegas. The show is no longer the venue for just consumer gadget geeks. Today, it’s also considered the lighthouse for the automotive industry. Honestly, this year’s event revealed a drama of our time.

It struck me in the auto exhibition hall, where the OEMs and big suppliers presented their strategies: “The future belongs to robot cars and machine autonomy.” “Robot cars will have uniqueness through advanced robotic features.” “Mobility will become cinema, gaming, and relaxation together.” “Everything enabled by AI...” And so on...

However, the ivory tower out of which these empty phrases are coming is built on a sandy ground. When the marketing curtain was lifted, nobody spoke about the “4D consumer experience of mobility”, but about the multitude of dark clouds that are threatening this industry (and others). Declining volumes, latest unconvincing technology, and China souring. Not to mention the industry’s absurd strategy to manage its own diesel scandal.

How ironic that one OEM futurist described the new role of the driver as becoming the “shaper”, the shaper of the car’s interior color effects...

Strange. Our future, and, more importantly, our present day desperately needs shapers, leaders who have a vision that turns risks into chances that are strong enough to shape new opportunities.

When it comes to political leadership, 2019 is almost a lost year. The US and the UK will further destroy their relationship with the rest of the world. China’s party will spend whatever it needs to exert its influence – but probably based on the understanding that “living in interesting times” is a curse not a cure. And Europe? Will it become more than a pragmatic story made up to deal with the legacies of war? As long as the EU sticks to its defensive vision, the imbalances will remain. “Muddling through” will be the order of the day in Brussels.

We as business leaders cannot rely on politics. We have to have the guts and be “shapers” in times when it is tempting to leave change only to the system and technology. Be “shapers” on the big questions... more than just offering color effects.

How can we turn our organizations into speedboats rather than preserving them as tankers? What are innovations that step change the client experience rather than turning on the last inch of product adjustment? How can we use ecosystems to push for sustainable solutions rather than only delivering products and components?

To quote one of our authors in this 19th edition of the Periodical: “Character still is more important than digital skills.”

I wish you an inspiring read.

Yours,

Gerhard Nenning
Executive Director of The Stern Stewart Institute
From Genesis to Revelation

Editorial Comment
Gerhard Nenning,
Executive Director of
The Stern Stewart Institute

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Head, Industrials, Business Services,
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AI Made in China
A Dominant Presence on the World Stage

China: a brief history

Before the Industrial Revolution, China generated roughly 30 percent of global economic output. In other words, in those days its share of global economic power was significantly higher than all the G7 countries combined. China was far more advanced than the rest of the world, and was responsible for numerous inventions that changed the course of history, including gunpowder, papercrafting, and the compass.

With the advent of the Industrial Revolution, however, China’s economic importance began a long, steady decline. The country played at most a subordinate role in all subsequent industrial revolutions. At the low point of this development, China generated just 2 percent or so of global GDP.
China’s meteoric rise

In 1978, China began gradually opening up its economy. This process resulted in average annual growth of 10 percent in the years up to 2010, a development unparalleled in recent history.

Since joining the WTO in 2001, China has tripled its share of global exports and increased its annual automobile production from 2.3 to some 29 million vehicles, leaving the United States and Europe trailing in its wake.

China is once again a dominant economic power, contributing 18 percent of global GDP. Its R&D intensity has tripled over the past 20 years, and is coming ever closer to the levels seen in advanced countries such as the U.S., Japan, and Germany. The country currently ranks at number 17 on the global innovation index – the first time it has ever broken into the top 20.

But China shows no sign of resting on its laurels.

The future – as China sees it

China is determined to be the principal architect of both the impending fourth industrial revolution and of the shape globalization will take in the 21st century.

The country is pursuing a long-term strategy of making itself the undisputed leader among the world’s industrialized nations by 2049, when the People’s Republic celebrates its centenary.

This long-term strategy has been translated into a number of clearly defined initiatives. The “Made in China 2025” initiative, for example, is a three-stage plan to give China a leading position in many areas of technology. And the “Next Generation Artificial Intelligence Development Plan” aims to make China the global leader in the key area of artificial intelligence (AI) by 2030. Technological initiatives such as these go hand in hand with mammoth infrastructure projects, such as the “One Belt One Road” initiative, which will allow it to secure global trade routes and mineral deposits.
CHINA IS DETERMINED TO BE THE PRINCIPAL ARCHITECT OF BOTH THE IMPENDING FOURTH INDUSTRIAL REVOLUTION AND OF THE SHAPE GLOBALIZATION WILL TAKE IN THE 21ST CENTURY.
AI: the mother of all technologies

China also has its sights set on AI as a key technology. It’s not alone: leading figures from government, industry, and academia in the world’s advanced economies agree that artificial intelligence will be the universal technology of the 21st century.

Although the technology has its origins in the United States, both Chinese government and industry quickly identified the potential of artificial intelligence to bring about a new, fourth industrial revolution. This led and continues to lead to heavy investments in this field.

The management consultancy firm PwC predicts that global GDP could increase by as much as an extra 14 percent between 2017 and 2030 as a result of AI – the equivalent of roughly 16 trillion dollars. It also sees AI as the biggest opportunity for economic growth, yet while North America is expected to grow 14.5 percent as a result of AI, in China this growth could reach a colossal 26 percent.

What are the main success factors for AI?

"Just as electricity transformed almost everything 100 years ago, today I actually have a hard time thinking of an industry that I don’t think AI will transform in the next several years.”

—Andrew Ng, formerly professor at Stanford

The power of data

China can draw on a huge pool of data. With some 1.1 billion cellphone users and 800 million internet users, this pool is larger than in the United States and India combined. The potential of this pool is amplified by users' everyday habits. Compared with U.S. citizens, for example, the average Chinese use their smartphones to pay for things 50 times more frequently, use rental bikes 300 times more frequently, and order food online ten times more frequently.

The WeChat app that belongs to the tech company Tencent has more than one billion users. Among other things, this means that it processes seven billion photos a day. This is a huge source of data that can be used immediately to improve image recognition.

As explained by the AI pioneer Fred Jelinek, the success of AI hinges first and foremost on data. According to forecasts, the amount of data generated worldwide each year will have increased tenfold between 2016 and 2025, to 163 zettabytes (1 zettabyte = 1 billion terabytes). Experts believe that China’s share of this will increase from just under 20 percent today to roughly 30 percent in 2030.

With the huge amount of data at its disposal, therefore, China has a good basis from which to expand its AI expertise. For the West, this means it is crucial to exploit its own data to the utmost, as well as to develop intelligent algorithms that function with smaller amounts of data.
Hungry entrepreneurs – China’s startups and corporations

Of the 2,500 AI companies currently in existence around the world, 43 percent are in the United States and 23 percent in China, according to experts. But this balance of power will soon change. In 2017, as much as 48 percent of global investment in AI startups was made in China.

In China, conditions are ideal for AI startups. Even in 2016, there were 8,000 incubators. Furthermore, Chinese startups are faster. Experts estimate that where large startups take between five and eight years to become established in the United States, in China they take just three to five years. In other words, they earn money faster.

In the past five years, more than 1,000 AI startups were established in China. Only the United States achieved more. The startups related above all to smart robotics, computer vision, financial technology, and NLP (natural language processing). While most of them are still in the preliminary phase, some outstanding startups have already developed into unicorns, such as Face++ and SenseTime in the computer vision field.

Even in the AI chip segment, which is currently dominated by global giants such as NVIDIA and Intel, a number of local startups are emerging whose competitiveness is good, such as Cambricon and DeePhi.

A Global Times study (cited in a paper by the German Ministry of Economic Affairs and Energy) has analyzed Chinese companies’ competitiveness in AI-relevant areas such as autonomous driving, big data, speech recognition, image recognition, cloud computing, and machine translation. It concludes that Baidu has the broadest portfolio and the strongest position overall in its development work in all these areas.

Other Chinese IT companies are also strong players. Here, we could name Alibaba in the area of cloud computing and big data, while iFlytek is the leading Chinese company in the areas of translation and language recognition. And in the area of image recognition technology, SenseTime is second only to Baidu.

The Global Times analysis shows just how much potential China has in the AI field. It receives comprehensive state support, and individual Chinese IT companies are already extremely successful. Both these factors strengthen China’s competitiveness.
AI research: the war for talent

When it comes to research, the United States is still well ahead of China. In 2017, for example, the U.S. could draw on a talent pool of 78,000 AI researchers, while China had only roughly 40,000. Moreover, U.S. researchers have more professional experience on average. But China is catching up.

The number of AI developers in China is increasing. Many experts have returned to China, and major Chinese companies have set up their own AI institutes outside China to recruit foreign talent.

According to the AI expert Kai-Fu Lee, the office of Microsoft Research Asia alone has trained more than 5,000 AI experts, many of whom are now working as CTOs and leading AI scientists in companies such as Baidu, Alibaba, Tencent, and Lenovo, or have moved on to startups.

But it’s not just a question of number. The quality of Chinese AI research is also improving, as is evidenced by the leading role China has now taken alongside the United States in academic publications, papers, competitions such as the Net Large Scale Visual Recognition Challenge, and involvement in bodies such as the Association for the Advancement of Artificial Intelligence.

And 2017 was the first year in which China had more academic publications than any other country. Moreover, in 2016, China ranked second in the number of AI patents filed, with just under 16,000.

AI-friendly political environment

The political environment in China has a positive effect on these developments. Chinese politics and society are willing to embrace AI and to rapidly integrate AI into ever more aspects of everyday life.

Events such as the defeat of the Go world champion by a smart computer in 2016 served as a “sputnik moment” for the Chinese government, which shortly afterward announced its plan to make China the global center for AI innovation. As a result, Chinese venture capitalists invested even more in AI startups and surpassed the United States in global AI financing.

When it comes to the technologies of the future, China’s science and technology ministry relies heavily on and collaborates closely with its leading digital corporations, or what is called its “national team” made up of Alibaba, Tencent, Huawei, Baidu, and iFlytek.

Each of these five companies has been assigned a focus area in which China aims to become market leader. The government wants the companies to exchange information and support each other. Baidu has been given the lead in the development of self-driving cars, Alibaba is to turn China’s metropolises into smart cities, Tencent to marry medical technology with AI, Huawei to provide cloud and infrastructure, and iFlytek is to concern itself with language recognition. For Hu Yu, the executive president of iFlytek, this is clearly a win-win situation – “We help the government, and it helps us.”
In addition, regions are competing with each other and setting up innovation zones. Beijing, for instance, is home to a gigantic AI development park that has space for up to 400 AI companies and a national AI laboratory; another AI park has been set up with the help of an investment fund in Hangzhou, where Alibaba is headquartered. And these are just two of the 19 cities and provinces investing heavily in AI infrastructure.

There are many alliances and joint ventures between China’s leading AI companies and either local governments or national organizations such as China’s National Engineering Lab for Deep Learning Technologies.

The Chinese government is keeping the market supplied with funds to support AI, while Chinese tech giants are growing and ever more startups are springing up to take advantage of this capital.
Contemporary history is increasingly being written outside Europe. If we want to change this, we need to speed up!

It is awe-inspiring to see how strategically China is shaping its future. In the AI sphere, China is pursuing a clear industrial policy, one of the most comprehensive in the world. It is now at the center of global AI development.

China wants to take the lead, while the United States wants to preserve its lead. As for Europe, it doesn’t even feature in most of the above comparisons between the U.S. and China, the two AI superpowers. In the global debate, it is hardly mentioned, if at all. So what should Europe be doing? We have to finally admit that the leading countries in this sphere have a decisive geostrategic advantage.

Europe must quickly make a gargantuan effort if it is to have any chance of competing on equal terms with China and the United States.

What is clear is that governments have recognized the challenges they face. There have been some first steps and initiatives on the part of the EU, and the German federal government has an AI action plan. A Franco-German AI center has also been proposed, and a working group has been asked to draw up a roadmap for it by the end of 2018.

CHINA WANTS TO TAKE THE LEAD, WHILE THE UNITED STATES WANTS TO PRESERVE ITS LEAD.

There are also individual AI regions such as London, Paris, and the Cyber Valley area around Tübingen and Stuttgart. And there are some initial ideas for strengthening the ties between these centers. For example, the Leibniz laureate and Max Planck Institute director Bernhard Schölkopf has presented his “Ellis” initiative (European Lab for Learning and Intelligent Systems).

But as the China expert Peter Sieren points out, what is still lacking is a clearly coordinated strategy at EU level, with a plan for putting it into action. And in a recently published paper calling for widespread reform, the BDI (federation of German industries) also warned that the EU member states will only remain internationally competitive if they pool their strengths to develop AI systems and make them widely available.

Such a common strategy must be put into practice with resolve and determination, backed up by massive government support. In this process, we have to combine our strengths more effectively and stop any unilateral efforts.
“Artificial intelligence is a global game changer. It will change our lives and our societies. Sometimes people say the best way to control the future is to create it. Let’s not leave this to others.”

—MORTEN IRGENS, vice-chancellor of Oslo Metropolitan University and co-initiator of "CLAIRE", the Confederation of Laboratories for Artificial Intelligence Research in Europe

The aim must be to make progress quickly and pragmatically. It will be difficult to make up lost ground. European politicians and society have to see AI as a powerful tool with significant potential – if ethical standards are observed – to boost human productivity, security, and wealth. And this ethical question – what values to apply when developing and deploying artificial intelligence – is where Europe may possibly have a competitive advantage. If Europe succeeds in becoming a credible player in AI, it could also play an important part in developing such an “ethical” AI.

Many things are still unclear. But one thing is very clear: AI will soon be with us, and with a vengeance. This is something both industry and the scientific community agree on. We Europeans should at last give this subject the attention it deserves.

AI – a research priority for Bosch

Bosch regards artificial intelligence as a key technology of the future, and is pushing ahead with research into practical AI that is safe, robust, and explainable, and that turns things into intelligent partners that complement people’s abilities.

While today’s AI focuses especially on software applications, established industries give us a basis and an opportunity for promoting smart things. This is where Bosch sees its focal point.

The Bosch Center for Artificial Intelligence (BCAI) is a way for Bosch to expand on its existing AI experience.

The objective of promoting AI research is also served by alliances such as Cyber Valley. This collaboration with partners from the fields of science, politics, and business means that research findings are quickly translated into actual industrial applications. The aim is that Cyber Valley should in this way become an international hotspot for AI experts and thus play a role in the global competition for innovations.

In the AI sphere, Bosch has set itself ambitious aims and defined a clear roadmap for achieving them. Ten years from now, every Bosch product will have AI, or AI will have been involved in developing or manufacturing it.
China Calling: How European Firms Benefit From Working With Chinese Companies

Chinese investments in European corporates are soaring. Beyond the injection of capital, what is the true value-add of working with the Chinese?

Uwe Krüger
Joint Head, Portfolio Management Group; Head, Industrials, Business Services, Energy & Resources
Temasek
In 2010, Swedish premium car brand, Volvo, was in a weak position after years of poor sales. The lifeline came from an unlikely buyer from the other end of the world: Geely, a little known Chinese upstart, then known for churning out cheap, small models.

The union has had its ups and downs. The early years were marked by friction between the company’s Swedish executives and its Chinese owners. However, the management set aside their differences. And as they say, the rest is history. Volvo is back on the road to success with sales boosted by Chinese consumers’ penchant for luxury cars.

Fast forward to 2018, Volvo’s story of a European firm being bought over by a cash-rich Chinese investor is playing out across the continent. A Bloomberg study showed that Chinese companies bought or invested in assets in Europe as varied as automobile companies, airports and football teams to the tune of US$318 billion over the past ten years. This is 45 percent more than Chinese investment into the United States over the same period.

Chinese interest in Europe is set to grow, as the US adds barriers to foreign investment.

As more Chinese investors come knocking on their doors, the first question that corporate leaders in Europe should ask themselves is: what is the true value-add that China investors can bring, besides capital?

Second, if they decide to work with the Chinese, what can be done to traverse the cultural nuances and overcome differences in management styles?

Reaching wealthy Chinese millennials

The stock answer to make the case for entering a partnership with the Chinese is access to the vast China consumer market. Its population stands at around 1.4 billion. The Chinese market has experienced volatility in recent months largely due to rising trade tensions with the US. However, its consumption economy will continue to grow in the long term, fueled by aspirational millennials and the wider needs of a growing middle income population – both trends that are less volatile than the markets. There are about 330 million millennials in China today: five times the number in the US. Put another way, millennials in China equal the entire US population.

There are other distinct characteristics besides the number: Asian millennials tend to be much better off than their parents’ generation. A study by researchers from Stanford, Harvard and the University of California at Berkeley suggest that only half the US children born in the 1980s, earn more than their parents. Without doubt, rapid economic development has delivered results to younger Asians, who are today’s consumers.

Chinese millennials, in particular, are also poised to earn better incomes; a legacy, in part, to China’s one-child policy. Many have low levels of debt, as their parents pay for all their education, and some even have homes bought by family members.

This means they have the ability and propensity to spend more on leisure and better quality products. They will gravitate towards middle income lifestyles, such as more frequent travel (and staying at high end hotels in luxury destinations), expensive cars and designer goods – all of which European firms are well-placed to provide.

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**Figure 1:** Asia’s millennial population is now likely the most influential demographic cohort in the world. Asia includes China, India, Japan, Hong Kong, Korea, and ASEAN (Indonesia, Malaysia, Philippines, Thailand, Singapore, Vietnam). Data as at June 24, 2017.


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**Figure 2:** While many Asian consumers still earn less than their counterparts in developed economies, Asian millennials have higher incomes compared to their parents.


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2 http://www.kkr.com/global-perspectives/publications/china-a-visit-to-the-epicenter
Reinvigorating Europe corporates

European companies can benefit from technological transfers, by working with Chinese firms.

Specifically, the way Chinese firms innovate using data and consumer feedback can provide growth opportunities for European corporates. Chinese consumers readily accept innovation. They are early adopters of products and services and provide feedback for rapid refinement. This can be seen most clearly in the Internet services sector. Alibaba, Tencent and Baidu have become global leaders by developing new products, from online bazaars to seamless payment platforms, by using data and incorporating feedback from consumers.

It is not that European companies are not innovative. It is that European companies perhaps fine-tune their products over and over again before introducing them to the market.

To be fair, initiatives such as “Industry 4.0”, which focuses on automating and digitising traditional production processes in Germany, have improved productivity and products. However, firms in Europe run the risk of falling behind in an era when technology is evolving at lightning speed and competition is truly global.

China’s nimble consumer-driven innovation model may be able to push European firms to keep up to date with the changing needs of consumers both in China and back at home.

Filling the gaps in China’s economy

However, while China’s innovation drive is succeeding in sectors driven by consumption and technology, it has yet to take the lead in scientific discovery and engineering.

A 2015 study by consulting company McKinsey found that Chinese manufacturers were falling behind in auto and commercial innovation, branded pharmaceuticals, biotechnology, semiconductor design, and specialty chemicals.

These are gaps that can be filled by European firms, where strengths tend to be in engineering, and research and development. Companies here are in an ideal position to partner Chinese players to fill those gaps. By catering to the specific needs of the Chinese market, European firms gain. They can redirect those gains into their businesses, and invest in ways to boost innovation.

Navigating unchartered territories

The case to work with Chinese companies and investors is strong. However it can be daunting for European companies, which face stark differences doing business in China compared to more familiar markets at home.

The target market for many European products fits well with the modern Chinese consumer. However, European firms still struggle to understand the modern Chinese consumer. Volvo faced this challenge when it entered the Chinese market. Its traditional Scandinavian design, has long been seen as understated, yet practical, in Europe. However, this was called “too Scandinavian” by its new owner, Chinese billionaire Li Shufu, who knows that the new Chinese consumers like designs that are flashier. As a result, Volvo’s new models now sport luxury features and designer glitz to cater to the booming Chinese market6.

Navigating these unchartered territories is challenging. There’s a big potential upside, but mistakes can be made along the way, especially based on misunderstandings.

The journey can be made easier with the help of an interlocutor who understands both the needs of European and Chinese firms. This is a role that Singapore investment company, Temasek, has been playing with our portfolio companies, both here in Europe and elsewhere.

Given our origins and history, Temasek is able to provide insights and make introductions for its portfolio companies looking to expand in Asia. However, we are clear that our role is to provide counsel, not to take on management roles in the companies in which we invest. The challenge, then, for Europeans firms is finding the right partner, who understands their corporate culture and can help them make the most of the opportunities in Asia.7

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6 https://www.reuters.com/article/us-sweden-volvo/
with-cigars-and-crystal-volvo-makes-eyes-at-chinese-rich-
idUSKBN0GI09320140818

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China is an irresistible magnet for foreign investment and trade. Deng Xiaoping’s 1978 reforms, maintained for 40 years, expanded China’s economy 10 percent a year, lifting 800 million Chinese out of poverty. With almost 1.4 billion people, China is a mega-sellers’ market. The Chinese government reported that in 2017, 35,652 foreign-funded companies were established, and foreign direct investment was valued at US$136.72 billion – a 7.9 percent increase over 2016. That year, China and Europe had a trade flow of €573mm, and the US over $635mm. Today, China’s economy represents over 19 percent of global GDP. That’s the good news.
The Business Case for Human Rights in China

*The views expressed herein are the author’s own and do not necessarily represent the official position of Human Rights Watch.
The bad news is that throughout, China has remained politically repressive – and has become increasingly more repressive under Xi Jinping. For some, China’s “adaptive authoritarianism” is a tolerable model for a capitalist non-market economy, one that sacrifices transparency, accountability and rule of law. China has raised its standard of living, created millions of jobs at home and abroad as well as a consumer-driven middle class, experienced consistent, strong economic growth, and provided a tremendous market for foreign businesses, which begs the question: Are a healthy civil society, human rights, democratic freedoms and institutions really necessary? The answer is yes. And in light of China’s slowing economy and mounting debt, when a recession happens – and it happens in every economy at some point – the Chinese populace’s tolerance for repression is likely to evaporate, as it did in Indonesia during the 1997–1998 financial crisis.
In the beginning: The West’s optimism... or naïveté? The consequences of PNTR for China

The story of the West’s trade agreements with China demonstrates an unfounded optimism, or perhaps more suitably framed, a level of democratic determinism, in what open trade could achieve.

In 1980, the US began granting “Most Favored Nation” trading status to China through annual waivers. Despite yearly opposition to renewal by a coalition that included human-rights activists, the US approved “Permanent Normal Trading Relations” (PNTR) with China in 2001, and it joined the WTO. With WTO membership, disappearance of the USG yearly MFN review, and weak enforcement of the values side of the EU’s own trade agreements, China was unleashed to build its wealth and economy however it saw fit, with minimal outside political interference.

Instead of adopting democratic values of economic liberalism and multiparty democracy, and rejecting hegemonic designs, China ferociously resists “Western values” as interference in its domestic politics, and increased repression and the closure of its society, and expanded its “Made in China” plans globally.

Despite this, once PNTR was granted, Western businesses dived in to take part in trillions in investments and trade. Although China’s preferential tax treatment has ended and its labor costs are rising, most multinationals make every effort to stay invested. Those who wish to do business must work within China’s increasingly difficult environment. This has created growing tensions for businesses. Some look away in order to continue making deals. Others acknowledge them, struggle and bend to demands.
**Foreign businesses need a rights-based environment**

Parallels exist. The characteristics of authoritarianism drive the Chinese government's dealings with all sectors of society, even some foreign governments, as evidenced by China's beholden cheerleaders at its November 2018 review by the UN Human Rights Council. Ultimately, Xi's government does not approach businesses one way and activists another. They all sit somewhere on a murky scale balancing Xi's need for total control.

Foreign businesses uniquely face forced technology transfers and regulatory harassment, and often sacrifice majority ownership of their joint ventures. Activists risk forced abduction, secret detention, torture and even death – threats principals of foreign businesses don't face...yet. Censorship; detention; lack of rule of law, transparency and accountability; arbitrary enforcement of laws and regulations; forced transfers of property; lack of legal privilege; weak labor and consumer rights, are among hallmarks in the treatment of foreign businesses and Chinese citizens alike.

Within the past few years, prominent multinationals Daimler, Marriott, Zara, Medtronic and Delta Airlines were publicly shamed and forced to apologize for marketing campaigns involving use of the Dalai Lama in ads, or references to Taiwan as a separate country.

Lancôme, the French cosmetics subsidiary of L’Oreal, canceled a 2016 concert in Hong Kong over a mainland Chinese social media uproar against pro-democracy singer Denise Ho. The Chinese government, provoked by mega-retailer Lotte’s sale of South Korean land for use by the US military, forced the company to shutter its businesses in China, totaling losses over US$1B.
Microsoft and Daimler have been subjected to “dawn raids” during which government anti-trust units tore through offices, took documents and computers with confidential IP, and subjected employees to intense questioning. In October 2018, global foreign banks were alarmed when a Singapore-based UBS banker on a business trip to Beijing was temporarily detained for questioning by the government.

Google quietly developed search engine “Dragonfly” for the censorship-happy Chinese market, contravening its sworn principles of advancing the free flow of information. US-based company Thermo Fischer Scientific has supplied DNA sequencers to Xinjiang police without asking how they will be used, while Xinjiang public security authorities collect the DNA of Chinese citizens not suspected of crimes for purposes of profiling them, without their prior knowledge or informed consent.
WE NEED TO THROW AWAY THE NOTION THAT FOREIGN INVESTMENT AND TRADE ARE OR EVER WILL BE A PANACEA FOR RIGHTS IN CHINA.
Human rights defenders need the voice of powerful businesses

We need to throw away the notion that foreign investment and trade are or ever will be a panacea for rights in China, but businesses can improve the business environment by using their leverage to support and articulate rights not just for themselves, but also for China’s embattled civil society.

Examples include, among so many others, the closure of centers providing legal aid, anti-discrimination work and public health information, such as Gongmeng and Yirinpeng, and the detention and torture of their respective directors Xu Zhiyong, Guo Bin and Yang Zhanqing; the imprisonment of bookseller Gui Minhai, a Chinese-born Swedish citizen now extremely ill, for the “crime” of publishing gossipy books about China’s political leaders; secret, unlawful “black jails” in state-owned hotels, nursing homes, and psychiatric facilities to detain Chinese citizens, mostly rural, angry “petitioners” who seek redress for local government abuses; the prolonged imprisonment and torture of dissidents, many of whom have died in detention or shortly after release, headlined by the death of Nobel Peace Prize Laureate Liu Xiaobo.

Xi now goes well beyond persecution of activists. One million Uighur Muslims have been forced into “re-education camps” in Xijiang. Perceived government rivals and even famous celebrities who embrace rich lifestyles have been targeted. With the disappearance and temporary detention of mega-star Fan BingBing, and the abduction and ongoing detention of Interpol president Meng Hongwei, Xi demonstrates that every Chinese person, no matter how high profile, is within his grasp.

All of these communities have common interests. As Sophie Richardson, China director for Human Rights Watch, explains, “An independent, professional legal system in China should be able to both enforce contracts and protect peaceful speech; a truly free press can report accurate, timely information to hold diverse interests accountable. The ability of people to share their ideas freely is essential for a competitive business environment and a less abusive, opaque political system.”

Household-name multinationals have far more leverage with the Chinese government than individuals. If they raise concerns, there may be openings for change. Richardson continues, “Companies should adopt sound business practices in China, including on human rights, and report on them regularly. Firms should reach out to human rights groups to compare government tactics and to understand common problems with the Chinese legal system so they can push for the types of reforms that would benefit both groups.”

Activists are doing the hard work, advocating and protesting for long-term reforms in the legal system. Such reforms could bring positive impact for both groups. Foreign businesses willing to support these changes and raise their own voices would be making a smart business investment.
Success Beyond Profit

Why Business Leaders Need to Look for a Corporate Purpose That Exceeds Purely Economic Perspectives
Living up to a higher purpose is important not only for individuals, but also for businesses. While some might dismiss the discussion around purpose-led companies as a marketing trend, there are in fact many reasons why following a purpose makes perfect business sense. Purpose-led enterprises clearly understand the power of an approach that co-determines the future success of all businesses: Purpose mobilizes people. Therefore, companies need to commit to a meaningful purpose to safeguard their economic future.
A corporate purpose mobilizes people in a way that profit alone never will. And it is people who drive our business and eventually its success and profits. The preferences and choices from various stakeholders determine how successful a business will be. In an increasingly connected world, all these people have more choice. And a continuously growing number of them prefer companies that not only solve their immediate business problems, but also create positive social and environmental impact. They want to be associated with companies that stand for values that they can relate to. Thus, purpose improves business performance, builds customer preference, engages employees, and enhances brand value. It’s also critical to investors.

This change in attitudes and expectations is particularly evident in the generation of millennials, who are making their voice heard in the economy and society with increasing power. They have grown up in a world that has come to the conclusion that all economic, social, and ecological fields of action are inextricably linked – regardless of whether we are dealing with global challenges such as climate change, resource scarcity or population growth, or with local issues such as the need for access to financial services.

What is a purpose?

But back to the actual purpose idea. To what extent does a strong sense of purpose contribute to fulfilling the expectations of various stakeholder groups regarding the values of a company? What is a purpose and how do you find it? In 2015, a pragmatic definition was given by the EY Beacon Institute and Harvard Business Review Analytic Services in a global survey that asked 474 top executives about the value of purpose. The study describes purpose “as an aspirational reason for being which inspires and provides a call to action for an organization and its partners and stakeholders and provides benefit to local and global society.”

At its core, it is therefore a matter of determining an overriding reason that prompts various stakeholders to engage side by side with a purpose-led company committed to a better world. This may sound a little too much like feel-good marketing to some people’s ears. But it is essential. Defining a purpose and finding ways to operationalize is like using a strategic management compass to set the direction for a course of action. It helps us avoid the spheres of a social-enthusiastic discourse but aims directly at our commercial expertise and creative power.
How do companies find a purpose that fits?

What a corporate purpose can be specifically varies. Depending on industry affiliation, the position in the value chain, and the degree of development of an organization, there is a broad spectrum of company-specific options. It would therefore be presumptuous to develop a generalized blueprint as part of this article. However, there are indications of what can help in setting targets. Our company’s approach may be interesting in this context:

To define our purpose, we have addressed the question of where the most important lever for improving the economy, the society, and the environment is. Following this, we have examined opportunities based on the market penetration that we have already achieved in recent decades. As the world’s largest provider of enterprise application software, serving over 413,000 customers in more than 180 countries, we are connected to three-quarters of the world’s transaction revenue. Our core competence lies in building management solutions that organize a customer’s business processes in an integrated, smoother, and more consistent way. This integration results in numerous improvements of the customer’s business productivity in parallel to its sustainability performance. We can apply our solutions to an extraordinarily diverse spectrum, ranging from energy and CO₂ management to product safety, health and safety at work, education and training, green IT, waste management and recycling.

Our solutions can also create visibility into organizations’ supply chains, where transparency helps procurement departments assess the social and ecological sustainability of potential suppliers. Another example is HR solutions that help companies to overcome bias at the workplace.

Applied to this wide spectrum, we can use our solutions, expertise, and broad reach through our customers to solve global challenges and help the world economy, society, and environment prosper. Our purpose therefore is to “help the world run better and improve people’s lives.” Through this, we accelerate economic growth, drive social impact, and sustain the environment.

This purpose sets high expectations, for us as individuals and for the entire organization. We acknowledge that we are certainly not perfect. It is a journey, during which we are continuously learning. And along the way, with new developments come new questions, such as the question of how we can use digital innovations such as Artificial Intelligence in a responsible way.

As humans, we do not always live up to our purpose. But it is important that we strive for a higher goal and maintain our direction.

As mentioned earlier, purpose can be defined as an “aspirational reason for being which inspires and provides a call to action.” So, you could say that having a purpose is a “stretch-goal” – and our call to action is to question our behavior in an organization and to constantly adjust our course so that we live up to this goal.
Why CFOs should be in the driver’s seat

Once aligned with both business model and entrepreneurial capabilities, purpose becomes a core driver of strategy and decision-making. The study mentioned above states that “53 percent of executives who said their company has a strong sense of purpose said their organization is successful with innovation and transformation efforts, compared with 31 percent of those who are trying to articulate a sense of purpose and 19 percent of the companies who have not thought about it at all.”

In addition, the 360-degree approach of economy, ecology, and social commitment also pays off on the capital market. Various studies have shown that purpose-driven companies perform significantly better than the market. For instance, the study, “Corporate Purpose and Financial Performance,” published in 2016 by US-based scientists Claudine Madras Gartenberg, Andrea Prat, and George Serafeim, documents with great precision that “firms have systematically higher future accounting and stock market performance when they are exhibiting both high purpose and clarity.” So, broadening views beyond financial goals pays off.
Why purpose fosters 360-degree stakeholder development

So let’s sum it up again: Committing to a greater purpose and leading by example through actions is critical to a company’s long-term success. But how can you tell the extent to which a company is actually doing justice to its purpose? Valuable information is provided in integrated reporting, which has broadened the perspective of the classic annual reports that are primarily geared to the information needs of the financial market. This ensures that the company’s social and environmental performance is presented on equal footing with its financial performance. Such an integrated report is based on the recognition that economic, social, and environmental fields of action are inextricably linked. Measures in one area almost always have an impact on the other two fields of action.

The added transparency promotes dialogue with customers, employees, partners, and public players and provides the basis for adjusting the course to live up to a purpose. The integrated report of a company shows the extent to which it is reconciling the development of its core business with the challenges of our time by highlighting the interplay between the company’s economic performance and its interaction with people and the environment – both within the company and throughout the entire value chain.

It is precisely this ability that is probably key to ensuring long-term entrepreneurial success. The development of the business model, the product portfolio, and the process organization alone will no longer be sufficient in the future, no matter how essential each of these three core tasks is. To be able to fully exploit our entrepreneurial strengths, we must work with our stakeholders to address the challenges that result from the increasingly direct interactions between the economy, society and the environment.

Purpose-led companies are excellently positioned to meet these challenges. So, the question might just be: Is there even an alternative to pursuing a purpose?
Global trade remains under pressure and continues to be vulnerable to geopolitical tensions and populist tendencies. But don’t underestimate the positive momentum created by e-commerce, which is set to become a powerful engine of future progress.
Is the renaissance of populism the death of globalization? Opinion couldn’t be more divided on the issue. While some believe that globalization is about to breathe its last gasp in the age of rising nationalism, others see it in robust health, with recent protectionist tendencies no more than an – admittedly irritating – hiccup.

Clearly, global cooperation and international exchange have seen better times. Wherever you look, open borders and cross-border flows have become an easy target. In many countries, foreign acquisitions are eyed with increasing suspicion and calls for further restrictions on immigration show no signs of abating.

Trade has been caught in the crossfire as well. Even small trade imbalances are setting off alarm bells. The effects of trade on jobs and the distribution of wealth have become a hotly contested issue. Around the world, trade tensions are increasing amid a backlash of populist and nationalist sentiment. More and more people are calling into question the rules-based multilateral trading system that we have come to take for granted over the last few decades.

Figure 1: The DHL Global Connectedness Index rose to a new peak level in 2017.

Figure 2: 2017 was the first year since 2014 in which all four flows of the DHL Global Connectedness Index have grown.
Signs of hope

No wonder many observers are nervous about the future. Their concerns should not be taken lightly. But fear is a bad counselor. Too much fear makes it easy to miss half – or more – of the picture. I believe there are good reasons to look toward 2019 with hope.

First, the global economy remains robust. Downside risks have increased, but growth has maintained remarkable momentum since 2016. Recent estimates by the IMF still put global growth at 3.7 percent in 2018–19, a rate that would be higher than in any year from 2012 to 2016. It is also noteworthy that many economies have reached or are approaching full employment.

Second, globalization is alive and well – in spite of repeated death notices. After US voters opted for Donald Trump’s “America first” platform and Britons decided to leave the EU, many expected global flows to take a severe hit. In fact, as the new DHL Global Connectedness Index (GCI) shows, the opposite has happened. The GCI report, to be released in early 2019, shows that globalization actually scaled new heights in 2017 (see figure 1). It increased across all of the flows captured by the GCI – trade, capital, information and people (see figure 2).

Third, global trade has held up well. The GCI shows that the proportion of economic output traded internationally rebounded following a multi-year decline. According to the report, the intensity of trade in both goods and services increased in 2017. In volume terms, merchandise trade experienced the fastest growth since 2011. The most recent data show that trade has continued to expand in 2018, albeit at a slower rate. And the outlook is equally encouraging; The latest DHL Global Trade Barometer signals a positive trend for the seven major countries it covers. It projects continued trade growth, but at a slower pace (see figure 3).

Fourth, many countries remain committed to trade liberalization, with a spate of key trade agreements signed in 2017 and 2018, including (1) the WTO’s Trade Facilitation Agreement, which aims to modernize and harmonize national trade rules and procedures; (2) the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which was negotiated after the U.S. withdrew from the Trans-Pacific Partnership; and (3) the African Continental Free Trade Agreement, which was signed by 44 African countries.
Driver of opportunity

These are encouraging developments as globalization has proven to be the world’s engine of progress in recent decades. The growth of global trade has contributed to a dramatic rise in living standards around the world – and has helped lift about 1 billion people out of extreme poverty. Cross-border flows of trade, ideas and people are fueling innovation and promoting better education, while close economic and cultural relationships create lasting ties that improve mutual understanding between nations and make armed conflict less likely.

This is not to say that all is well in the world. It’s true that globalization has not fulfilled all the hopes placed in it. Progress has been uneven and too many people have missed out on the benefits of globalization, such as greater economic opportunity. Also, many countries have not done enough to cushion the impact of change and support those adversely affected. These are legitimate reasons why some citizens are anxious and feel validated by populist movements.

But simple recipes like protectionist action won’t help. There is no evidence that protectionism can lead to sustained, broadly shared prosperity. Trade wars have no winners. So what’s the answer? We have to ensure, step by step, that globalization itself is managed with a greater emphasis on progress that benefits everyone. Here, the digital revolution provides us with an important new opportunity.
E-commerce as an enabler

Digital connectedness – especially the rise in international e-commerce flows – is already a key driver of greater global connectedness. According to a 2016 DHL report, cross-border e-commerce accounted for 15 percent of total e-commerce in 2015 and will expand to 22 percent in 2020. The consultancy Forrester predicts cross-border e-commerce to grow 17 percent annually between 2017 and 2022. International parcel shipments have already increased by more than 70 percent from 2011 to 2015.

This is good news for consumers and small or medium-sized businesses across the globe. For them, the internet is becoming a gateway to the global marketplace. E-commerce has made participation in world markets easier and more inclusive than ever. Local stores can build a thriving global business and access new customer segments almost overnight. New platforms and apps enable people in many professions to trawl the global market for the most attractive opportunities and clients. Billions of consumers now have products and services from around the world at their fingertips, in stores that are open 24/7.

This is a real revolution and a great step toward the democratization of trade. As the interface between the digital and the physical worlds, logistics has a crucial role to play in ensuring everyone fully benefits from this revolution. Working along the entire supply chain, Deutsche Post DHL Group ensures that every digital order leads to a reliable physical delivery – across borders, and in a sustainable way. This gives us unique insights into the many ways in which international ties enable individuals and businesses to succeed.
Keeping up the momentum

Clearly, claims that globalization is on its last legs are much exaggerated. Many countries haven’t abandoned their commitment to open borders and international exchange. I am convinced that globalization will remain one of the major forces shaping our future and a key engine of future progress – despite current political headwinds.

E-commerce, in particular, holds vast potential in a new global economy propelled by digital advances. E-commerce will help forge stronger international ties and enable billions of people to benefit from global economic opportunities. With such a powerful engine gearing up, I am optimistic that global trade in 2019 will be able to sustain the positive momentum of recent years. While a more inclusive global marketplace alone is perhaps not enough to heal fractured societies, there is no doubt that robust cross-border flows bring countries closer together. And that is a powerful antidote to protectionist tendencies.

E-COMMERCE HOLDS VAST POTENTIAL IN A NEW GLOBAL ECONOMY PROPELLED BY DIGITAL ADVANCES.
Dr. Markus Steilemann
CEO
Covestro
Buzzwords such as “agile” or “project swarms” have been crossing my path more frequently and I noticed how they’ve not only become increasingly relevant in management vocabulary but also globally impacted corporate culture over the past couple of years.

This progression in relevance got me thinking:

What is it about this phenomenon? Can this new way of working actually be a successful counter-model to the classic management theories we have relied upon for so long? Or is it just another overrated trend that will fade away after a while?
Success today requires the agility and drive to constantly rethink, reinvigorate, react and reinvent.” Bill Gates, principal founder of Microsoft and one of the greatest visionaries of our time, knew long ago what companies all over the world and throughout industry are increasingly realizing just now: Digitalization will keep us on our toes and – as a consequence – will accelerate competition massively. To tackle those challenges of the future, there seems to be only one way – revolutionize! Turn business models upside down and transform them into agile organizations. But while everyone is talking about it, the meaning of agile working seems hard to fully grasp. I want to take a closer look at the idea behind this concept.

From silos to swarms

Agile companies pursue a dynamic way of thinking and acting. They are able to adapt quickly to changing conditions and customer needs – in my opinion, that’s an extremely important feature considering we are living in a constantly evolving environment and the future becomes increasingly harder to predict. While traditionally managed companies rely on top-down hierarchies, straight structures and responsibilities, agile-thinking organizations believe in quite the opposite. Their credo: Wave goodbye to bureaucracy! To achieve more efficient project management and better project results, they implement cross-sectoral project swarms whose members are self-organized and encouraged to throw silo mentality out the window. Instead, it’s time to start thinking outside the box. The new agile set-up transforms the traditional definition of leadership – controlling and delegating tasks – to an organizational form that empowers employees and enables them to be confident in their knowledge and decisions. This in turn triggers a feeling of responsibility and a more motivated work ethic leading to promising project results.

WAVE GOODBYE TO BUREAUCRACY!
BEING AGILE IS NOT ONLY A QUESTION OF STRUCTURE AND ORGANIZATION BUT ALSO A QUESTION OF ATTITUDE.
FOR THE TRANSFORMATION PROCESS TO BE SUCCESSFUL, THEY HAVE TO BE WILLING TO BREAK OUT OF FAMILIAR PATTERNS.

Agile at the core

But beware: Transforming corporate structures alone and implementing project swarms will not suffice. In order to be successful, I believe companies have to take on agility as a holistic approach. Being agile is not only a question of structure and organization but also a question of attitude – mentality matters. A mindset that has to be part of the company’s DNA, implemented at the core. Let me explain what I mean.

Firstly, being agile at the core starts with management. As decision makers we have to be willing to embrace the concept and, as I’ve mentioned, shift to a less controlling, more empowering style. Inevitably, this means giving up control and trusting employees with it. To make this work, project swarms should be staffed with employees who embody different character features, different capabilities and different perspectives. Understandably, giving up control can be hard and challenging, but in the end this will ensure that projects are viewed and pursued from various angles to find the best possible solutions.

Secondly, while it is important for project swarms to vary in competencies as well as personalities, it is also crucial to not restrict them to the organization alone. In fact, agile teams should work beyond company borders and establish and include a network of digital suppliers, start-ups, distributors and customers. This will enable them to benefit from a full force of expertise with all parties being interlocked and able to quickly adapt in the digital age.

And thirdly, one of the challenges to becoming agile lies in employees themselves. The reason for this is simple – and intrinsic: The human being is a creature of habit. Employees are used to structures and ordered responsibilities. For the transformation process to be successful, they have to be willing to break out of familiar patterns. Becoming an employee with agile traits means they will be self-organized, decisive, motivated, inspired and courageous.
Dr. Markus Steilemann  Why Being Agile is the Future of Working

there is one common, overarching goal: research success and with that making the world a better place. Another example that helps embed our values and shape our company’s culture is the Covestro Start-Up Challenge. We introduced this competition for employees around the globe to submit promising business and project ideas. Members of the winning team are released from their regular jobs for twelve months in order to work on their idea and are funded with one million Euro to pursue the project. At Covestro, we see great potential for creativity throughout the company and we consider innovation to be an important aim for every employee. The Start-Up Challenge helps us to promote a pioneering spirit and entrepreneurship within the company. Through initiatives like this, an empowering corporate culture and the ambition to push boundaries we hope to become an even more agile company.

To conclude, I personally agree with what Bill Gates said long before agility became a trend. It goes beyond structures and, when done right, becomes a culture. Companies that tackle the transformation process from the core, are courageous and think differently, can benefit from the development towards agile organizations and eventually grow. Then, being agile will turn out as a smart solution instead of being just a short-term trend.

Uniting the unusual

At Covestro, we also had to review our company’s culture when we became an independent corporation a few years ago. To put it bluntly: We turned into a start-up with over 150 years of company history. But how do you unite start-up mentality with centuries of experience? Not an easy task for such an unusual combination. From the beginning, we made it our mission to keep pushing boundaries and to be pioneers in making the world a brighter and better place to live. And to achieve that goal, we as a company of course need to be innovative, sustainable and efficient. But even more so, we need to empower and enable our employees to live by our core values – to be curious, courageous and colorful.

That is why in our research we rely on the intelligence of the collective. For many years, Covestro has been working with a broad network of partners across Germany, where the company is based, and the rest of Europe to successfully advance research projects. We believe in a great importance of swarm intelligence since the variety of networks and different partnerships increase the probability of achieving a successful result. I am convinced that different research projects and partners can benefit each other and findings from one project can also drive other projects forward. At Covestro, we do not underestimate this value. In the end, we have to keep in mind that there is one common, overarching goal: research success and with that making the world a better place.

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Rethinking European Integration and External Relations in an Age of New Great Power Competition

Fundamental changes underway in the global system require Europeans to think much more strategically, improve agility and build capabilities to act independently.
The international world is no longer what it used to be just a few years ago. For decades after the end of World War II, European governments alongside the US geared their foreign policies towards strengthening multilateral organisations, partnerships, and action in a cooperation between liberal democracies. Consensus-based cooperation within the framework of the European Union and transatlantic alliance NATO came to be the preferred approach.

A competitive and insecure world

Today, Europe must hold its ground in a world of competitive multipolarity and rivalry between illiberal and liberal societies. Technological progress and digitalisation are opening up new instruments for authoritarian regimes to maintain their power internally and to exert international influence. Europe's strongest ally, the United States, is questioning the transatlantic relationship and structures of global order. China, Russia, Saudi Arabia and others see themselves in a systemic competition with the West. In the face of complex hybrid threats, Germany and the European Union (EU) need to bolster their strategic capacity, their resilience and their agility.
Challenges to the structures of international order

Institutions and regulatory structures have come under pressure – and with them the basic assumptions and practical routines of foreign policy. Four factors are central to this.

» **First**, the shift of economic, political, and military clout towards Asia that started in the 1990s, and the relative underrepresentation of emerging powers in international institutions, have resulted in the necessity to reform structures and institutions of the post-war world order.

» **Secondly**, the Western model of liberal democracies did not spread to the extent it was assumed it would after the end of the Cold War. The recognition of values and legal principles that have been incorporated into international law and international organisations is less robust than assumed.

» **Thirdly**, authoritarian forces such as in Russia or Turkey, have turned away from the Western model of politics and society define an antagonistic image of the ‘West’, both culturally and politically. Even in Washington, D.C., a mode of ‘friend or foe’ thinking prevails. The guiding idea of international cooperation as a positive-sum game has given way to a world of strategic competition, in which one party’s wins are offset against the losses of another.

» **Fourthly**, the withdrawal of the US as a guarantor of global order allows countries such as China and Russia to ‘fill in the gaps’ and implement their strategies for strengthening their own position. China both pursues mercantilist state capitalism and internally builds a technology-based surveillance state in which the ruling party is expanding its capacity for control. It does not pursue a strategy of destroying Western or global institutions, as it benefits greatly from the stability of the international system and the EU. However, it seeks to influence existing systems, such as the United Nations (UN), and is also establishing new structures, such as the Asian Infrastructure Investment Bank (AIIB), while strengthening its influence on governments of individual states. China will change the West more than the other way around, especially if the West does not take a more active position in reforming the structures and principles of the current world order.

The EU is faced with a fivefold task in order to assume a role of significant formative power at all.

» **First**, against all odds, it must maintain its relations with the US and with the institutions, values, and principles of the liberal democratic world in order to preserve at least their basic principles in the ongoing transformation of the international order.

» **Second**, Europe must develop its capacity for projecting power politically, economically, militarily, and technologically. It needs to face its challengers from a stronger position, in order to fathom cooperation, at least in individual policy fields.

» **Third**, the EU must increase its own resilience, as attacks of a hybrid nature will increase. Neither the EU nor national governments are able to guarantee protection on their own.

» **Fourth**, the EU and its member states will have to become far more agile as we are living in times of unusual fluidity with a high risk of crises, both in financial, economic and security terms. This requires quicker and holistic responses to far more complex challenges.

» **Fifth**, the relationship between foreign policy and economic interest needs to be rethought. Likewise: world of new power competition, a number of countries such as China or the US, “weaponize” economic tools, such as trade, (extraterritorial) sanctions or debt. Neither the EU nor its member states are prepared for this challenge. In a close dialogue between political and business leaders, possible responses need to be evaluated and instruments need to be devised that serve as responses and can possibly also prevent the EU from getting under more pressure. One challenge to look at is the coordination of policy areas such as trade, energy, finance or security, which in the complex setting of the EU are conducted on different levels with varying degrees of actual EU competence.
These are extensive and difficult tasks at a time when tensions in the EU-27 have become greater than ever since the start of integration. The EU’s internal cohesion and international environment are directly related: external players offer alternative political models, partnerships or modes of funding that some of the EU states are using. Regardless of whether they are doing this because they are convinced of the merits or because they want to improve their bargaining position within the EU: they are weakening the EU further either way.

The EU depends on globalisation, free trade, and regulated and peaceful coexistence and for most European states illiberal models of state and society are unacceptable. Accordingly, and in its own interest, the EU should actively defend and shape liberal and multilateral norms – both internally and externally. Only then will its relevance be accepted by its members. A normatively consolidated EU can and must do its utmost to maintain multilateral structures, while at the same time making them fairer, more inclusive, and more sustainable than in the past.

Moreover, from the point of view of many citizens, the EU no longer fulfils its promise of prosperity; on the contrary, it is regarded by many as the engine of threatening globalisation. This perception is exploited by populist parties and used against the EU. It is an urgent political task to adopt European measures in the field of...
economic and social policy that will, in the short term, at least somewhat reduce this impression of vulnerability and delimitation created by the EU and world trade, and make the protective role of the EU tangible. This includes a more realistic economic policy towards China, such as investment control measures, in order to fend off strategic purchases of relevant key industries. The EU and its Member States need a more decisive industrial policy in order to be able to compete with players who do not respect liberal market principles themselves. At the same time, a positive agenda for instance with China should be defined, looking at mutual interests in reforming and maintaining structures of global order or, for example, at enhanced cooperation in research and innovation.

Third, all of this will only work if the EU shapes and regulates the digital transformation of the working environment and society in Europe, to effectively define global standards in the future as well. It is in the European interest to act as proactively as possible. As a result, Europe will not be able to concentrate on monitoring and responding to developments in other countries and regions, but will need to prioritise its own competitiveness and attractiveness as a strategic resource.

In the field of foreign and security policy, the EU or a group of member states, possibly including the UK after Brexit, need to deepen their strategic dialogue in order to increase the likelihood that they agree on strategic goals and the resources that need to be provided to achieve them. Especially in the traditional core area of security – defence –, the EU is dependent on the US. The much-cited EU initiatives for enhanced military capabilities, permanent structured cooperation (PESCO), and the development of a strong industrial defence base, including through the European Defence Fund (EDF), are steps into the right direction but will only fully materialize in ten to fifteen years. Strengthening European and national strategic capacity within NATO is a prerequisite for its credibility in security policy, following its own principles in security and defence alliance, and for policy-making.

The challenges of security policy today go far beyond the military. Internal and external risk areas are merging. In addition, the grey area between war and peace is widening, especially in ‘non-military’ fields such as politics, business, and society. Violence can take a variety of forms, be it oppression through economic dependency, disinformation, or cyber-attacks that steal data but also endanger infrastructure. Governments and the corporate sector need to consider new categories and competences in security policy and increase their agility to act.

The internal and external challenges the EU is facing are indisputably great. Nevertheless, in particular because of the scale and scope of shifts in our international environment, the EU or a subgroup of its member states in partnership with other likeminded countries, are still more promising and competent actors to cope with the existing complexities than any single Member State alone.
“THERE IS ACTUALLY A RIGHT FAIRWAY FOR OIL PRICES IN THE WORLD”

In an interview with CNN’s Emerging Markets Editor/Anchor and Stern Stewart Institute Board Member, John Defterios, Bob Dudley, CEO of British Petroleum, talks about the latest developments in oil prices (and the expected ones), the US and the Iran sanctions, and about lessons to be learned from periods of low oil prices.
After having worked in various functions for various companies in the oil industry since 1979, Dudley became a managing director of BP in 2009, and was appointed head of the company’s activities in the Americas and Asia. Shortly after the Deepwater Horizon oil spill in 2010, Dudley initially was appointed president and chief executive officer of BP’s Gulf Coast Restoration Organization working with the oil leakage in the Gulf of Mexico, before succeeding Tony Hayward as BP’s group chief executive in October. He also became a member of the board of directors.
It was no secret that this also had something to do with the fact that he, as an American, was more likely to be trusted to restore the lost trust of the Americans in BP. In view of his work at BP over the past nine years, he has more than lived up to this expectation and his own aspirations, as he manoeuvred the company into calmer waters, while at the same time initiating major projects that will shape the path of the oil giant in view of a low carbon future.

We’re talking to Bob Dudley at a time when the position of the company could hardly be better. Its adjusted net income was the highest since 2012 and the shale acquisition will "transform" BP’s position in the United States, as Dudley puts it. Revenues between $5 billion to $6 billion from planned asset sales, that were announced in connection with the shale deal, will now be used to reduce debt, so that one hopes to achieve the gearing target between 20 and 30 percent can be reached by the end of 2019. Confidence in continuing to generate enough cash, through further divestments (already $400 million this year) ensures that BP no longer plans to issue shares to finance the purchase.

**John Defterios:** We entered quite a severe bear market from the October high of $86 a barrel for North Sea Brent, but what were the reasons for this, in your opinion? Was it driven primarily by a slowdown or more or by geopolitics? And how is it tied to Iran?

**Bob Dudley:** I think if you look at the inventory level, one can see that they have come down pretty much in balance. Of course, they ticked up a little bit, but it appears to me to be sentiment driven. The talk of eight exemptions to Iran, which has driven the price down again, makes people unsure whether we have entered a bear market. It seems to me like a bit of an over-correction. And after all, the OPEC ministers themselves are thinking about whether we need to throttle back a little bit on production to keep the inventories from building.

**John Defterios:** Saudi Arabia made it pretty clear that they are going to take a half million barrels on their own off the market, and from what I heard they are targeting even 1.1 to 1.2 million barrels a day – will that be enough to make the mood at OPEC tip over?

**Bob Dudley:** Yes, that is actually a lot of oil that is now being taken off the market. And even if the Iranian oil now flows again, it will help to create a core market again with less volatility. However, I do think we have to be prepared for some volatility. A rebalancing of this scale cannot happen overnight, and if Saudi Arabia actually wants to cut its output by half a million barrels a day in December alone, as it has announced, this cannot happen without certain upward and downward peaks. But in the end, it will level off again.
John Defterios: What will be the biggest threat in 2019? Do you believe that it could be falling demand, the threat of a trade war or simply the fact that the economic cycle, which has been going on for eight years now, could gradually run out of fuel?

Bob Dudley: We are starting to see a slowdown in the growth rates around the world. So, if you asked me two or three months ago, I would have said, oil increases by 1.5 million barrels a day in demand. Meanwhile, it looks more like the market is settling at 1.3 million, which probably has to do with growth rates. Anyway, there is plenty of oil out there, even if OPEC is throttling some of its output. I see potential for increases in the US, as the Permean Basin gets rid of its bottleneck. On the other hand, there are still uncertainties with regard to Venezuela and its production. All in all, there are still a few imponderables up and down, but nothing OPEC + could not handle.

John Defterios: You were absolutely convinced that the market was overvalued before the bear market set in between October and November. What made you so sure that the price was getting out ahead of itself?

Bob Dudley: It went up so fast, that it seemed to me a clear response to the Iranian sanctions by the U.S. In my view, President Trump could see 100-dollar oil, which led him to grant a few exemptions. I have to admit that I became quite a bit uncomfortable when it got to 85 dollars a barrel.

I THINK THE PRESIDENT IS A NEGOTIATOR – THAT KEEPS PEOPLE OFF BALANCE AND KEEPS THEM GUESSING.

John Defterios: Do you think that the White House mismanaged the whole process? There has been talk of pushing Iranian oil production to 0 by the end of the year and then there are eight exemptions. Do you think the Trump administration is too concerned about a possible triple-digit oil price?

Bob Dudley: Well, I think the President is a negotiator – that keeps people off balance and keeps them guessing. I wouldn’t call it mismanagement, but I think it keeps everyone off balance a little bit.

John Defterios: What is your forecast for 2019 after what we saw in October?

Bob Dudley: We have been on a 55-dollar oil price for some time. 2018 we have been way above that. When the time comes, we will decide what to do with our budget, but right now, we will keep the company very disciplined: we keep our capital structure – like we said many times, between $15–17 billion. We have made a big acquisition in the US – we are going to make divestments, we are readjusting our portfolio, but we will certainly not be getting exuberant about our oil prices.

John Defterios: What is the sweetspot in 2019 for emerging market economies who have suffered from the stronger dollar? And what would you consider a good range for prices?

Bob Dudley: That is a good point, as there is actually a right fairway for oil prices in the world. If it’s too low, producing countries really suffer and we begin to see real stresses. Of course, consumers like it, but if it gets too high, consuming countries and countries with currency challenges, like India for example, are very much impacted by this. So, for me there is some fairway in there. $50–$70 or $60–$75 feels like the right spot for producers and consumers, and we are going to operate our company certainly within the lower level of that fairway.
John Defterios: What was the biggest lesson you learnt from the 2015–2016 price crisis, as a result of that fall to $30 dollars a barrel?

Bob Dudley: Of course, I remember that time very well as we had to deal with our own crisis, that is the Gulf of Mexico spill. We had to move and adapt to sell a lot of assets as a company to meet the obligations. I think we realized quite quickly that we would have to expect lower prices for a longer period of time from now on and we adjusted to it just as quickly. The lesson is do things fast. If you think you’re outside the cycle, and 100 dollars will be the fixed price forever, you have to remember these lessons in history: be very agile as a company, is one of the lessons. And I was pleased to see how the company as a whole accepted and implemented these lessons. We kept enough investment for growth, because one cannot just cut back and not grow, but we not only learnt a lot of lessons through that, but we kept them in mind and institutionalised them.
What are the essential skills to teach our children? To answer this question, we first need to ask a deeper question: What do we really want for our children? Do we want them to become the founders of the next Google? Do we want them to become genius software engineers? Do we want them to become billionaire investors thanks to their knowledge about the digital space?

Rolf Dobelli
Founder
WORLD.MINDS
This would all be very cool. But I doubt that this is what we really want for our children. And I doubt that this is what we really want for ourselves.

So what do we want for our children? Fundamentally, we want them to have a Good Life. I think we can all agree on that. And with "the Good Life", we don't mean that they drink the best bottle of Bordeaux. No! We mean the Good Life in its deepest sense.

People have tackled this question for tens of thousands of years. And we are lucky to have written answers from the past 2,500 years. In our part of the world, the best answers come from the Ancient Greek and Roman philosophers. In India and China, you get a slightly different spin, but it's surprising how similar the answers are.
Ataraxia against anger

So, what did these philosophers mean when they talked about the Good Life? Two things: Eudaimonia – which translates into personal growth, flourishing, the love of learning. And, second, Ataraxia – which translates into tranquility and equanimity (basically the absence of toxic emotions). You’ll achieve both of these components – by the training of Character. I’ll get to this strange word in a second.

There is a remarkable non-correlation between leading a Good Life and money, between leading a Good Life and status, between leading a Good Life and IQ, even between leading a Good Life and digital skills.

We all know people who lead fantastically wonderful lives full of personal growth and the absence of toxic emotions, who are not millionaires. And we all know billionaires, big cheese CEOs and tech entrepreneurs who lead perfectly miserable lives – lives that we would not wish on our children.

It would be idiotic to focus of digital skills, just because “digital” is the paradigm du jour. It would be as if in the 1950s, we would push our children to accumulate skills in plastics manufacturing, in the 1920s to become electricians or 500 years ago to learn all there is to learn about the printing press.

Digital graveyard – where dreams end

Moreover, there is a severe selection bias in how we think about “digital”. The media reports only on the big winners – not on the many losers. We read about Larry Page but not about the 1,000 failed attempts to create a better search engine – all by individuals who have great digital skills. To get an unbiased view, we need to visit the graveyards of failed companies, failed projects and failed people. But nobody reports on them. So, we live under the illusion that digital skills lead to greater and more frequent economic success than they actually do.

Our children need to understand that, as long as you create value for other people, it’s very hard to fail. If our children understand this, they’ll be economically fine. And the only way they can screw up their lives (and we can screw up our own lives) is by skimping on Character.

There is a remarkable non-correlation between leading a Good Life and money.
Character is like golf

Now, Character is greatly misunderstood. Character is not some big airy, mystic concept that comes for free with age. It is fundamentally a roster of learned skills – of mental tools and specific behaviors. You could also describe them as if-then-rules: “If I find myself in this situation, I will think and act in that manner.”

For example: If you find yourself in the grip of envy (an extremely toxic emotion), someone who has developed Character skills will use some of these learned skills to quickly diffuse the situation. Or: If a journalist asks for your opinion of something that is outside your circle of competence, you will refuse to answer (and not fall prey to your ego and overconfidence).

Just like you practice your golf swing, you have to practice your Character skills. And the more you train these skills, the more automatic your response to specific critical situations will be. The Greeks understood this very well. As did people like Benjamin Franklin or Markus Aurelius.

Character becomes more important than ever. Why? Because you want to be prepared to face artificial intelligence (AI) agents who will try to manipulate the hell out of you. Character is the only firewall between you and the onslaught of AI agents.

Because the world is a volatile place, specific professional skills can depreciate in value very quickly. So, what essential skills to teach to our children? Skills that will never, under no circumstance, lose their power. And these are Character skills. Digital is merely a side show.
2017 was an exceptional year. The post-crisis recovery culminated in a synchronized pickup in growth around the world. 2018 has proven to be quite different, and so will the following years.
2017: Problems remain under the covers

2017 was an exceptional year. The post-crisis recovery culminated in a synchronized pickup in growth around the world. Financial markets performed very strongly: not only stock markets surged by around 20 percent but almost all other asset classes clocked up attractive returns, too. At the same time, volatility was extremely low. All this was underpinned by rising corporate profits boosting share buybacks, dividend payments and investments.

This great synchronization in 2017 was quite surprising. Political challenges were plentiful. The newly elected US President Donald Trump left no doubts about his intentions to smash the rules-based trading system; Europe remained in policy paralysis over Brexit, Eurozone reforms, and refugees; and geo-political tensions, notably in North Korea and the Middle East, kept rising. But the cyclical upswing was strong enough to cover all these problems.

2018 and beyond: Problems come to the surface

2018 has proven to be quite different, and so will the following years. On the one hand, the cycle enters its last stage and loses steam, on the other hand, the political risks may become even more daunting. As a consequence, growth differentials are set to emerge again, reflecting differing fundamentals as well as diverging economic and monetary policies.
The great withdrawal of monetary policy

To start with monetary policies. Monetary normalization in the US is already well advanced. The Fed, the US central bank, had not only stopped its bond purchase program (QE) but also started to reduce its balance sheet. Interest rates are back at levels last seen before the financial crisis. In contrast, the ECB, the European Central Bank, has barely begun with normalization; it just announced to end QE by the end of this year. The first rate hike is at least still one year off. And the other systemic relevant central bank, the Bank of Japan, has still to drop any hint on normalization. These different stances have repercussions in financial markets, first and foremost in currency markets: After years of weakness, the dollar is back and might strengthen further. Coupled with higher rates in the US, the dollar strength has had a profound impact on global capital flows: Capital left emerging markets for a couple of months, in particular poorly managed ones like Argentina or Turkey, causing their currencies to flied further against the dollar. These market turbulences have calmed down in the meantime but could quickly resurface with further monetary tightening.

Financial markets in advanced countries are neither immune to turbulences. The actual or expected withdrawal of central banks has changed market sentiment. Whereas during the post-crisis years market participants were quite confident that policymakers would respond to market disruptions – building the “buying the dip” mentality –, this is no longer the case. In that respect, the recent episode in the Italian bond market – where spreads surged briefly at the prospect of a constitutional crisis in Italy – was instructive: The ECB did nothing to calm markets; on the contrary, shortly thereafter came the announcement that the time for policy normalization has finally come, given the rise in inflation. The upshot: The era of policy suppressed volatility has ended, markets are in for a rougher ride, compounded in many cases by already stretched valuations.

The fiscal policy mess

There are also sharp differences in fiscal policies. The US have embarked on grand-scale policies to stimulate growth, in a pro-cyclical way: Huge tax cuts, deregulations and ambitious spending plans add fuel to an already booming economy in 2018. In Europe fiscal policy has become gradually less restrictive in recent years. But it is still miles away from boosting demand in a meaningful way. What is even more: Structural reforms have more or less come to a standstill, be it at the national or supra-national level. The result is political impasse in Europe slimming the chances for a higher long-term growth. Last but not least China: After years of unconstrained debt-fueled growth, doubling the total debt pile to 300 percent of GDP in just ten years, the government has finally started to reign in the borrowing binge. Although overdue, slamming the brakes on corporate leverage, forcing banks to write down bad loans and curbing shadow banking will undoubtedly weigh on growth.
De-synchronization and three recession risks

These diverging policies speak for a more uneven and less dynamic economic development, with a temporarily widening growth differential between the US and Europe, slower growth in China and periodic “accidents” in emerging markets. However, this describes the benign outlook for the world economy.

There are mainly three, mutually reinforcing risks that have the potential to push the world economy into recession over the course of the next three years: a US recession, a trade war and a populistic backlash.

The US economy is currently experiencing – thanks to highly pro-cyclical fiscal policies – a sugar-rush. The resulting hang-over could be nasty and exacerbate the cyclical slowdown. Most likely, the price for pro-cyclical policies will have to be paid in 2019 or 2020: the revaluation of the Dollar and necessary steps to rein in excessive deficits will slow the economy down. If the overheating forces the Fed into raising policy rates faster and higher than expected, a recession seems inevitable. A possible trade war would make a bad situation worse denting sentiment of consumers and companies.

The rest of the world would be hardly immune to a US recession as the room for maneuver to revive demand and fight spill-over effects is (very) limited: Interest rates are still relatively low almost everywhere – and rock bottom in Europe and Japan; balance sheets of central banks are bloated; and public debts and/or fiscal deficits are too high to allow for more than cosmetic measures.

If the world economy slips into recession, it becomes quite probable that recent trade tussles turn into a full-blown trade war. In the way the post-crisis years of low and insufficiently inclusive growth have fueled public anger and led to the rise of populism, renewed economic hardship would further erode trust and reinforce economic nationalism.

But even without a recession, the probability of a trade war is uncomfortably high. This would be a fatal hit for the global economy. Although the direct impact of tariffs on trade flows might be at first glance minuscule and hardly detectable in an environment with still strong growth, their effect is nonetheless poisonous: Protectionism creates uncertainty. And uncertainty saps corporate animal spirits leading to less investment, in particular cross-border investment; global value chains get strained. With the confidence in rules-based, global economic governance badly shaken, trade and capital flows will eventually dry up. Rather sooner than later, growth and productivity take a blow.
It is easy to see how a recession cum trade war would add fuel to the flames of populism. But the rise of populism is (no longer) dependent on economic malaise. It has become a force of its own. 30 years after the “end of history”, the supposed victory of Western liberal and open democracies over autocratic and closed societies in the East, the West looks exhausted. Its inability to cope with a new, polymorph world offering new challenges – the rise of China, climate change, migration – makes it vulnerable to attacks on its values. After years of frenetic globalization and social as well as cultural change many people feel uprooted and look for new identities: the working class, for example, turns to right-wing parties as it sees the (traditional) Left as part of the new liberal and global elite – and no longer as the advocate for the “normal” people. Populistic movements – on the Right as well as on the Left – exploit this void and promise to create a new sense of social affiliation by turning inwards. In economic terms, they stand for economic nationalism attacking global markets, the most important source for growth and prosperity in the aftermath of World War II.

To sum up: Despite strong growth in the last two years, the outlook for the world economy shows more than just a few scattered clouds. The danger that the current upswing ends in tears is real. Markets and policymakers seem to have ignored that risk for some time. For sure, such an outcome is not inevitable. If policymakers act comprehensively and in concert, and turn around in trade policies, the slowdown can be managed and a hard landing can be avoided. But they have to change course now.
The wildcard: AI

So, all hope is lost? Not really. There is a wildcard that could change everything: Technology. In particular AI (artificial intelligence) holds the promise to usher in a new era of high and rising productivity. After years of sluggish productivity growth lowering potential output, such a technology-driven push would be more than welcome. The question is: How fast can these productivity gains be realized? Undoubtedly, examples of super-efficient companies abound. But to make a real difference, these new technologies have to diffuse into the broader economy as well. And this transition takes time and creates adjustment costs. Also higher market concentrations and increased market power of incumbents hinder the diffusion of new technologies as the transfer of resources from less to more productive competitors is slow downed. Somewhat paradoxically, it would require a little more regulation to accelerate the adoption of new technologies – especially upgrading competition policy to the needs of the data economy of the 21st century.

There is a wildcard that could change everything: Technology.

Thinner cows are coming up

What are the implications for investors? One thing is crystal-clear: They have to prepare for a more difficult environment, to put it mildly. Since the crisis, financial assets have significantly outperformed the real economy: This happy constellation is over. The backlash of many years of expansionary policies and the risks of a trade war might make the opposite come true. In any case, returns will be lower and volatility higher than in the post-crisis environment. For successfully navigating such an environment, investors need “cautious flexibility”: a resilient balance sheet and an agile investment process to exploit temporary opportunities. But most importantly, an open mindset will help to find the right path between all the potholes of potential disruptions, be they technology-driven or political-induced. The calm years are coming to an end. Investors are likely to face rougher times – but hopefully the downward leg of the cycle will be short.
As always at this point it is worth taking a brief look back, a moment of pause and reflection. Of course, looking back at the past year, there may be different views and perspectives on what exactly we have witnessed, but there have certainly been some events that have been recognised by all as far-reaching and particularly important. Then there were some events that were probably not foreseen by many of us and that even surprised many experts.
At least one question from this year’s pool suggests that this should include the question of how the Donald Trump presidency is developing or what the end of it is. Last year, around 20% of those questioned in our poll still expected an impeachment procedure, but now this is not even 4% who think this is possible. Accordingly, almost half of the respondents even expect a second term of office, which twelve months earlier was not even considered conceivable by 2% of the participants (see Figure 1).

However, the American presidency, as spectacular and controversial it may be, surely was not the only issue, the economy had to deal with over the last twelve months. The Brexit deal between the UK and the EU, sanctions against Russia and the Iran, and, of course, the growing division of the EU over refugees are issues that not only concern the public but also have many implications for the economy, as they make planning and strategy very difficult.

The importance of Europe in the world has come under pressure in recent years for many reasons: from within, through growing nationalist aspirations, an increasing divergence of interests, especially in the migration issue, as well as through the Brexit; from the outside, through shifts in the international balance of power as a result of the isolationist policies of the US administration and a more aggressive Russian policy. Add to this China’s tremendous growth and influence in more and more countries of the undeveloped world, and Europe threatens to be crushed between the blocs and lose its former power.

How will Donald Trump proceed with his presidency?

![Figure 1](image-url)
Can Germany afford to remain below NATO’s 2% of GDP defence spending target?

![Poll Results](image)

The question now is how Germany, as one of the core states of the EU, but also how Europe as a whole, should react to these challenges: stronger self-confidence, also vis-à-vis the USA, as Macron has it in mind with his push for closer military cooperation between the European states; or unconditional adherence to the Atlantic alliance. This is a particular pressure on Germany, which has not yet been able to achieve the NATO target of 2% of gross national product for defence spending. Almost three-quarters of the respondents consider it necessary for Germany to bow to American pressure on this issue (see Figure 2).
Nevertheless, a majority of the panelists were convinced that a stronger European presence was not only sensible, but also necessary. Necessary, in order to be able to counter the expected negative repercussions of the Brexit and the end of the boom more effectively; sensible, because Europe, with its strong framework conditions such as good education, 500 million consumers and attractive living conditions, is actually well positioned to stand up to the other players. However, there were different points of view on the way to a stronger Europe: for some, the economy is responsible, for others it is first and foremost the politicians’ turn to revive the European project.

But our Annual Summit would not be what it is if we had only devoted ourselves to these, more or less geo-political questions. On a more down-to-earth, concrete level, however, all important topics of technological development, trends in corporate management and questions about the consequences of digitization were discussed with the same zeal and expertise, so that this year all participants surely left Elmau again with the feeling that they had heard many enriching impulses and suggestions that they could take with them into their companies.

At the same time, however, they are equally clear that Europe should in future attach greater importance to its own access to space independent of NASA, which suggests that the question of Europe’s greater independence has by no means yet been resolved (see Figure 3).

Does Europe need an independent access to space?

63.27%  YES

36.73%  NO

Figure 3
It was certainly not a coincidence that China and its new role in world politics was the topic of several panels at this year’s summit. The first question was how the West should deal with the unbroken trend of Chinese investment in Western companies. A clear majority of those present pleaded for cooperation with China, especially as long as the USA takes a special path in relation to China. It was pointed out that the Asians were by no means as imperialist as it might appear on the surface. Between the lines it was also suggested that a more intensive cooperation with China could be a necessity in order to sustain the global trade which is threatened by the trade policy of the USA.

But of course there was also a warning that the West had to make an effort to find answers to the Chinese challenge in the technology sector. In this area in particular, China has caught up enormously over the past 15 years and shown what a policy with concerted decisions and consistent implementation can achieve.

To the deliberately general question of whether China would dominate the world in 2030, almost 60% answered yes, which is surprisingly clear in view of the many unresolved questions about the internal constitution of the giant empire. Quite a few experts expect great social tensions should the gap between economic growth and personal prosperity widen further (see Figure 4).

Will China dominate the world by 2030?

<table>
<thead>
<tr>
<th>59.77%</th>
<th>40.23%</th>
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<tbody>
<tr>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

Figure 4
WE DODGED THE BULLETS SO FAR... HOW TO BOOST CYBERSECURITY IN OLD AND NEW ECONOMY?

One of the problems with cybersecurity is that probably most of us lack the imagination to even imagine the worst case scenario of a total failure of all networks and security systems. What remains is the indeterminate, but also very abstract feeling that it could become very bad due to the ever-increasing interconnectedness of all technical amenities.

The problem, it was quite convincingly argued, could come from a completely different direction: It doesn’t have to be the big blackout that paralyzes all of our civilization. Rather, the greatest loss could be that people lose confidence in the security of the systems. The consequence of this could be that much that is necessary is not done.

Over and over again, individual hacker cases show us the vulnerability of state and private networks in a prominent place, and the panel also said that absolute security against such attacks cannot be guaranteed in the future. Even though the most fatal prognosis, according to which there is absolutely no security against hacker attacks and the protection systems are always one step behind the hackers, was not generally shared, the discussion gave the impression that there is still no recognizable defense strategy.

Who exactly should be responsible for this? A state initiative and corresponding standards, for example, were rejected by a discussant on the grounds that this would take too long; at the same time, however, much stronger cooperation between states and the recruitment of the greatest talents to increase security was called for.

Our poll also reflected the diverse views on this issue: more than half of the respondents were in favour of the government focusing on the most important infrastructure for security (54.93%), but only 8.45% thought that governments should stay out of the fight for more cybersecurity (see Figure 5).

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Option</th>
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<tbody>
<tr>
<td>36.62%</td>
<td>A global governmental Institution should set comprehensive standards</td>
</tr>
<tr>
<td>54.93%</td>
<td>Governments should focus on key infrastructure only</td>
</tr>
<tr>
<td>8.45%</td>
<td>Governments should stay out</td>
</tr>
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Which role should government have in boosting cybersecurity?
Also in the area of corporate management there were exciting discussions in Elmau this year again. Among other things, it was about the concept of agility, which has been widely used for years, and the question of to what extent it is ultimately a buzzword (as more than 10% of our poll participants see it) or a development behind it that will strongly shape companies in the future, as others assume (see Figure 6).

There was no disagreement on the view that if agility is a value that should have a formative influence on companies, this must be linked with a firm anchoring of this claim within the lived company philosophy. Only if this policy is exemplified every day by the entire management can something similar be expected from the employees. It was noted that the size of the organisational units also played a role in the question of agility. Only appropriately small units can guarantee the common purpose that binds employees together. In the discussion it quickly became clear that the question of a faster pace in decisions vs. security and calm has a lot to do with the willingness and the ability of a company to take risks. Even if these depend on the industry, type and size of a company, it was still suggested to start small. Because even changes on a small scale, in small units, can gradually introduce a new way of thinking into the company.

**AGILE ORGANIZATIONS AND PROJECT SWARMS – HOW TO START THE ENTREPRENEURIAL REVOLUTION FOR GOOD?**
Nobody denies that the automotive industry is on the verge of a turning point. The pressure for change is great and comes from all sides: From the regulatory bodies as well as from the customers and the competition. Old certainties are a thing of the past, no company can still be sure to emerge unscathed from this process of change. However, there is far less agreement on the question of which area will be the most hotly contested and which companies should therefore focus their attention on the most. For the majority, this will be autonomous driving. 42.61% of those surveyed see this as the key area but nearly 35% also regard data ownership as the decisive field in which the future of the automotive industry will be decided (see Figure 7).

In the discussion, it was rightly pointed out that car manufacturers are already much more than traditional companies. With the data available to them from the car and from the cloud, they possess a wealth of information that enables them to tailor the car of the future and the software it contains more and more precisely to the customer. At the same time, the need for regulation was repeatedly pointed out. Only trustworthy, generally binding rules and regulations will ultimately create the level of customer confidence on which the entire further development of the industry depends.

Forecasts have also been made about future expectations: in cities – this expectation was clearly expressed – autonomous driving will be the technology of choice, while e-mobility also will continue to advance. Although it will be possible to compensate for power peaks better and better, at least over long distances it will not be able to fully prevail in the foreseeable future.

What is the most decisive battle in the automotive industry?
The healthcare market is one of the industries in which big data strategists have the highest hopes. It is easy to understand that the data provided by the human body can be of great use in the hands of a wide range of players. The benefit increases proportionally with the amount of data available. However, the lack of confidence in the security of this data and the uncertainty as to who ultimately has access to this most personal of all information still hampers the willingness of patients and doctors to make it available on a larger scale.

Generally binding and globally accepted standards for data security were therefore cited in the discussion as the most important preconditions for any further development of the market. At the same time, it was pointed out that it would not be possible to gain greater patient confidence without ensuring that patients have unrestricted data sovereignty.

In the question of who will ultimately benefit most from the immense progress in medical technology, the answers were fairly evenly distributed, with around 35% considering the pharmaceutical companies as the big winners, just under 28% for whom it is the device managers and 18% each who suspect patient care providers or insurance companies to be the biggest beneficiaries (see Figure 8).
The global boom has now lasted almost ten years, which already comes close to the particularly long economic cycle in the 1990s. And even if our experts unanimously believe that an end to the boom is not imminent, there are more and more reasons that make an end to it more and more likely. Only a minority of Poll respondents expect the boom to end before 2020, while more than two-thirds believe that the global economy will not run out of steam until later (see Figure 9).

One of the greatest risks for the economy is still the trade war, which has only just begun and the concrete effects of which cannot yet be foreseen. However, it can be assumed that there will be a considerable expansion, as well as an increasing aggressiveness of the measures on all sides. Nobody is seriously convinced that the USA could win such a dispute.

And even though China still seems to many to be the tireless motor of the global economy, the difficulties that the automotive sector is now experiencing there show that a downturn is to be expected in the not too distant future, which cannot remain without consequences for other countries.
Also in the second discussion, which dealt with the role of China in the world economy, there was a highly interesting exchange of opinions. There was a virtually unanimous view that China’s new role as a new competitor on the world market would mean a huge cut and would affect every industry (see Figure 10). While on the one hand there were repeated references to the fields in which the West could not keep up with China and should not even try to do so, various areas were mentioned that had to be looked at more closely than before in order to be able to oppose the Asian superpower in the long term. These include, on the one hand, data security and customer confidence. Government regulations should be seen as a helpful tool, but awareness of the importance of these issues, especially among young people, should also be promoted.

On the other hand, there were warnings of an even stronger role for state-owned enterprises, combined with a reminder to curb this influence as long as competitive conditions remain as unequal as they are today. The still existing lack of freedom of opinion and freedom auf speech in China are also factors that inhibit research and development there, which means that Europe must continue to invest heavily in this area in order to exploit this advantage.

**Figure 10**

China’s shift from market to competitor...

- **8.42%**
  - is a non-event in my industry

- **91.58%**
  - is inescapable and will affect every industry

**CHINA TIPPING POINT – FROM BIGGEST MARKET TO BIGGEST COMPETITOR**
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