

Dr. Karlheinz Steinmüller
Z_punkt. The Foresight Company

the global future forum

Demographics and Competitiveness

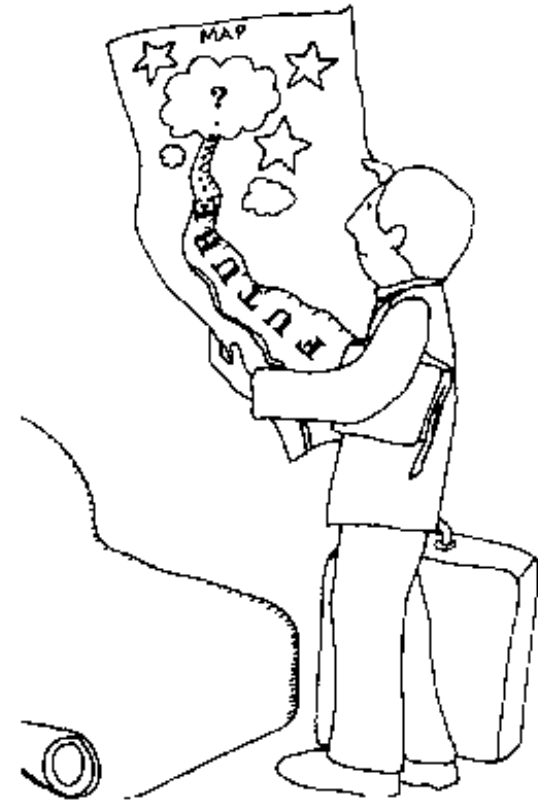
An European Perspective

UNISYS European Business Press Briefing
UIMC – June 21, 2004



Overview

- Introduction
- Demography:
Competitiveness at Bay?
- Future of Europe I:
Impacts of Enlargement
- Future of Europe II:
Smart Shrinking?
- A Look to China:
Opportunity or Menace?
- Conclusions





Four Years After Lisbon

Lisbon Goal

March 2000 Conference of Europe's heads of state at Lisbon, Portugal

Declaration to make the **EU by 2010**

“the most competitive and dynamic knowledge based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.”



After 4 years, the goal is more far away than ever.



Drivers for Competitiveness - A Futurist's Perception

Short Term

- Existing HR
- Wages
- Taxes
- FDI
- Innovations
- Entrepreneurship



Long Term

- Future HR:
Quality & Quantity
- Education
- Culture / Mentality
- Demography
- R & D

What is decisive in the transition to a knowledge society?



Demographic Change

Total population

Some Myths

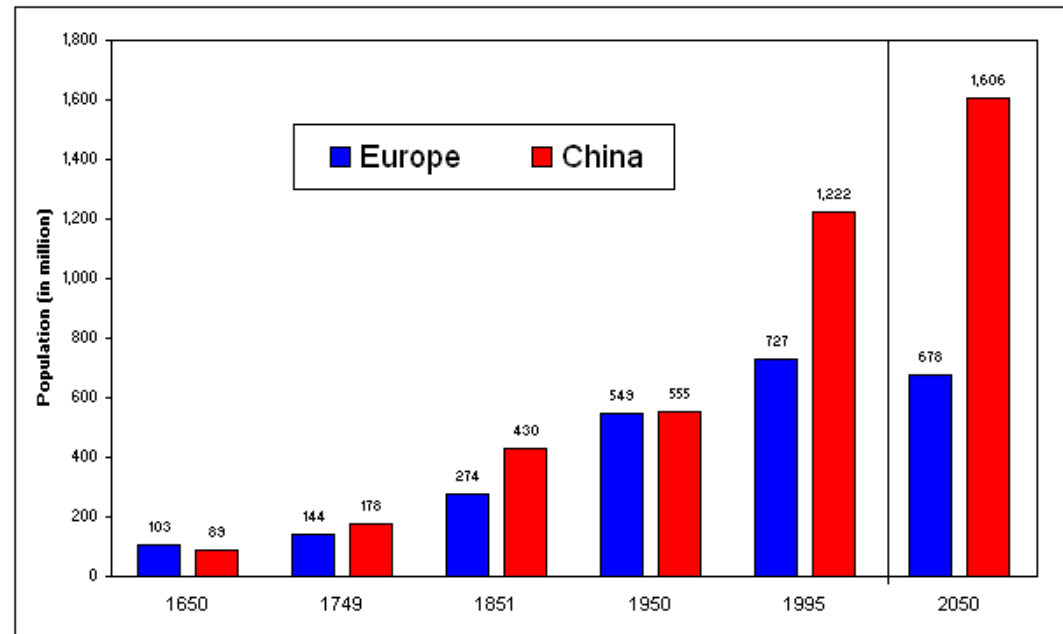
- Demographic change = Ageing
- Ageing = Question of pension schemes
- Pensions = more work, less pay for the young

Reality:

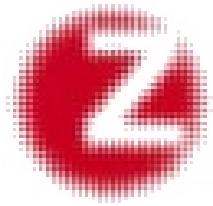
Ageing is mostly due to low fertility

From population explosion to population implosion!

Economic implications are not yet understood ...



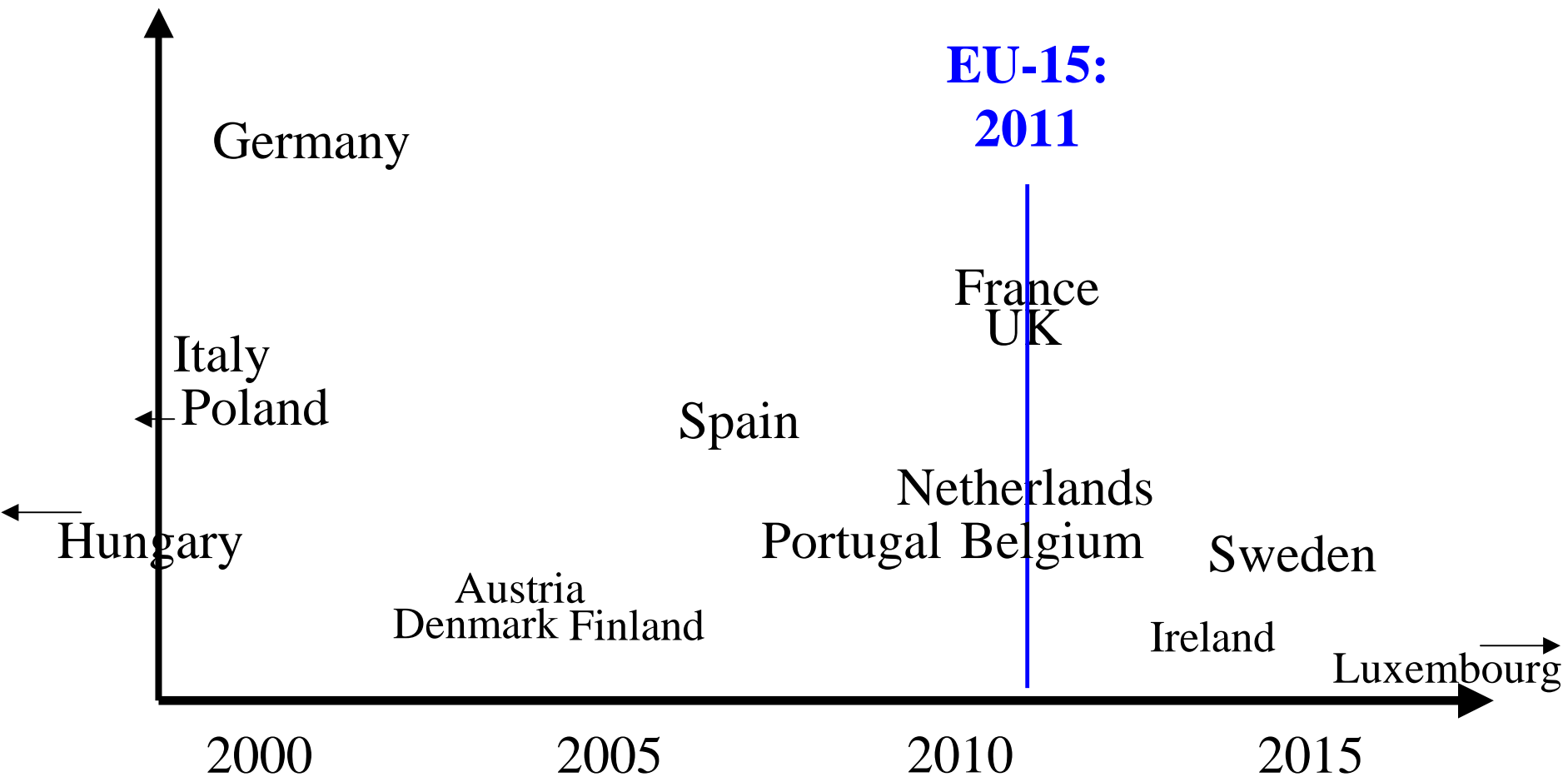
Source: IIASA 1999



Shrinking Workforce

Size of
workforce

Year when available workforce starts to shrink

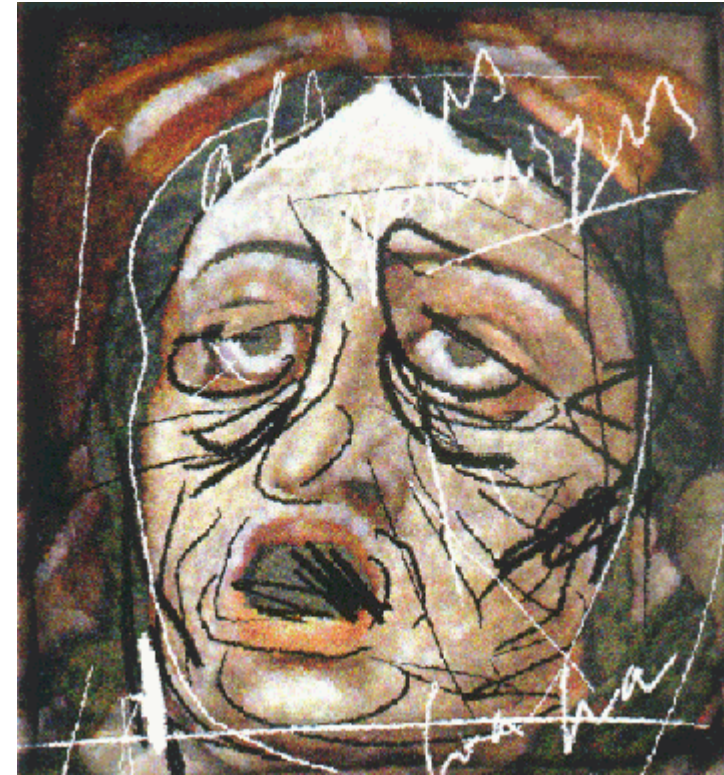




Economic Implications

(for most industrial countries)

- ↓ Slow-down of economic growth due to a contraction of labour supply
- ↓ Reduced tax income through wages and salaries
- ↓ Additional pressures on national budgets due to rising old age dependency ratios
- ↓ Less private savings since individuals draw on their savings to fund their retirement
- ↓ Diminishing average rentability since capital stock per employee is rising





Enlargement of the EU

- Poor cousins ...
... with good prospects?
- Population EU15+10:
380 + 75 mio
- GNP EU15+10 (2003):
9.276 + 437 bn €



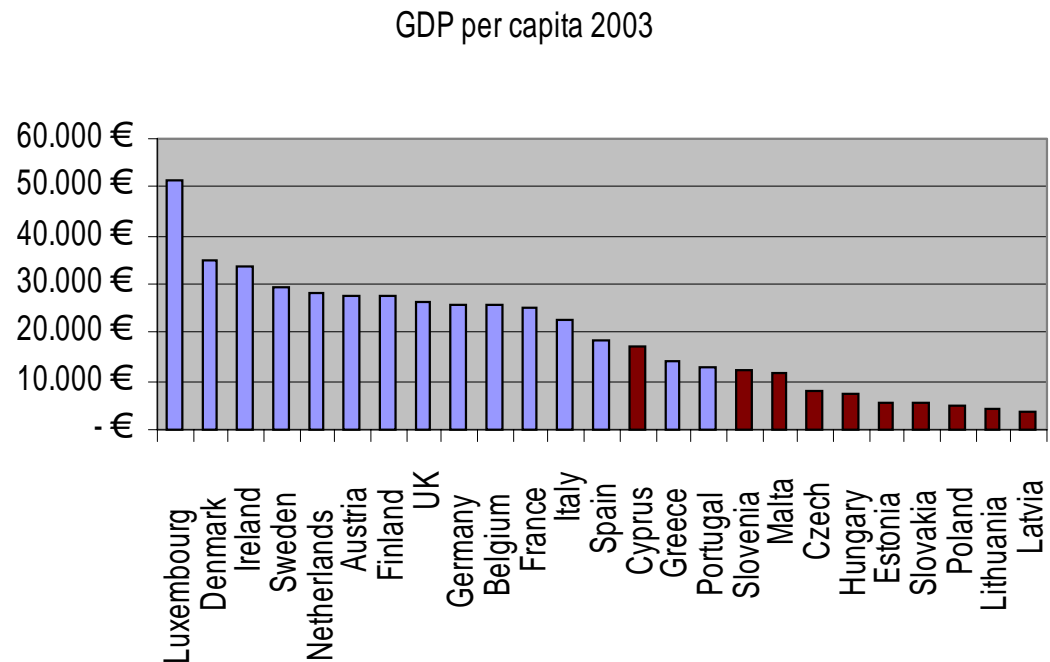
Is enlargement the solution?

Enlargement of the Euro zone is to follow between 2007 and 2009.



Impacts of Enlargement

- Enlargement increased differences within EU
- Enlargement forces reforms (“deepening of the EU“, constitution)
- EU budget insufficient for even medium term integration
- Conflicts over budget
 - Structural funds
 - Agriculture



Source: StatBA / Eurostat 2004

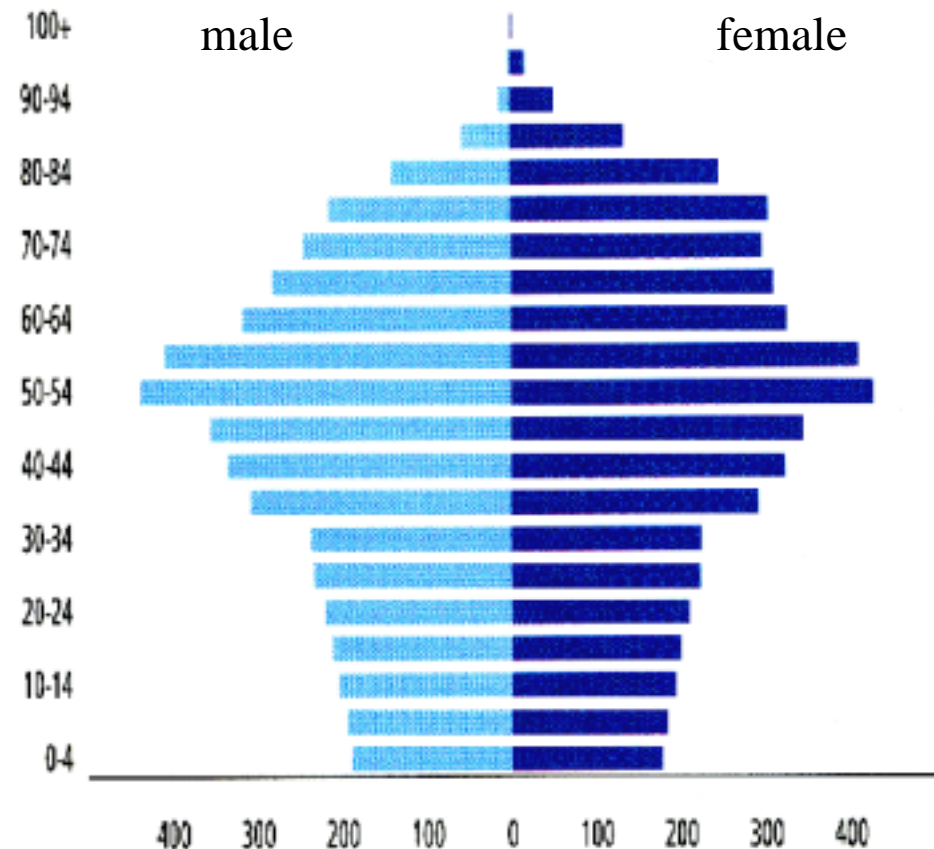


Demographics of CEEC

“Demographic crisis“

- Very low fertility:
 - 1.1 to 1.3
 - Migration to the West:
 - Brain drain (3...5% of higher educated)
 - Youth drain (10% of students)
 - Decline of population has already started
 - Poland: about 2000
 - Hungary: about 1980
 - More rapid ageing than rest of EU
- ➔ Misconception: large (agricultural) reserve population
- ➔ Depopulation of towns and regions!

Age Tree, Czeck Rep. 2030





Bleak Prospects for Europe?

- **It's easy to paint black!**

Future times for Europe

“when some traveler from New Zealand shall, in the midst of a vast solitude, take his stand on a broken arch of London Bridge to sketch the ruins of St. Paul's.”

(Thomas Babington Macauley 1840)



Gustave Doré: The New Zealander (1872)



An Optimistic Shrinking Scenario

“Smart Shrinking“

(© Z_punkt, 2003)

Hypothesis:

Demographic change stimulates innovation!

- Futurising European society:
- Institutional reengineering, successful reforms of social system
- Transition from industrial to knowledge society
- New social networking
- “Swarming“ companies and corporate responsibility / citizenship



Europe and
Germany in **2020**
A Future Scenario

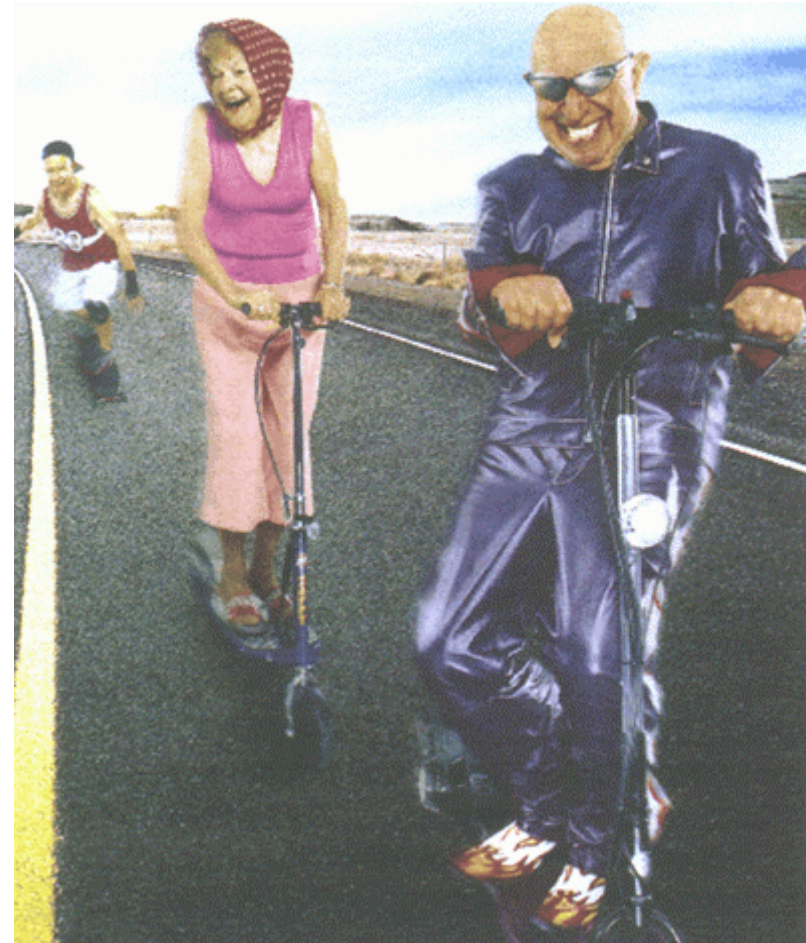
Klaus Burmeister | Andreas Neef
Beate Schulz-Montag | Karlheinz Steinmüller

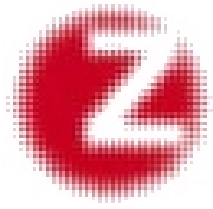


Conclusion

“Rejuvenation of the old continent“

- Flourishing social and technological innovations
- New models for social systems, work etc.
(perhaps even new models for reproduction???)
- The elderly as social resource
- Much immigration and integration
- Cultural diversity as driving force





Perceptions of China

China = globalisation writ large!

Large Companies:

The Chinese Opportunity

- Large market
- Low wages
- “We cannot not be there!”

Some People:

The Chinese Menace

- Whole factories sold to China!
- Even more offshoring & deindustrialisation
- Drain on global resources

Dislocation of European industrial production to China?

- Large companies go to China
- SME go to CEEC
- ➔ So far small or no loss of jobs!



Socio-Demographic Challenges to China

2004

- Still growing population, first signs of ageing
- Shrinking household sizes
- Single child generation
- New educated class
- Westernization (individualisation) of lifestyle in big cities /coastal region
- Increasing social differences

2030

- Massive impact of demography (esp. one-child-policy):
 - ageing
 - start of shrinking
 - Problems with pension schemes
- Unsolved problems with minorities
- Is China following the European path of demography?





Comparison EU - China

EU

- Decline of workforce
 - Saturated markets (post-industrial markets: from seller to buyer markets)
 - Service markets: Growing demand for services
 - GERD (EU-15):
 - 1.9% of GDP (2002)
 - “Barcelona Goal“: **3.0% by 2010**
- Utterly unrealistic
- Persons engaged in R&D: about 1.76 million

China

- Growth of workforce
 - Unsaturated markets: tremendous demand for classical consumer goods (“industrial age markets“)
 - Smartly restricted growth
 - GERD:
 - 1.1% of GDP (2002)
 - National goal: **1.5% by 2005**
- Nearly realistic
- Persons engaged in R&D: about 3 million

US: 2.7%,
Japan: 2.9%

“We produce knowledge, they goods“ will not work!



A Thought Experiment

How the Chinese economy influences Europe ... depends on Europe!

EU	European Slow Boat	Revitalisation of Europe
China		
Boom Continued	Offshoring to China - also of R&D, loss of jobs Higher raw material prices counteract growth impulses from China	Offshoring, but more additional growth impulses from China Due to scarcity of resources growth mainly in services & knowledge industries
Controlled Growth	Some offshoring to China Some growth impulses from China without much effect	Some offshoring, but growth impulses from China growth in services & knowledge
Disruption	Lower raw material prices, some more FDI to Europe But main impact: Negative fallout to global economy	European economy strong enough to counteract negative impact to global economy



European Competitiveness

- Enlargement is strengthening the European position - for a while.
 - Demographic ageing and shrinking is a major long-term menace to European competitiveness.
 - The real first ranking problem for European competitiveness is reform, on the national and the European levels.
 - The growth of the Chinese economy is affecting European competitiveness only indirectly. Without reforms, it is a risk. With reforms, an opportunity.
- ➔ Europe is first on the path of ageing and shrinking. It will develop the models.



Conclusion

Mark Twain:

“Forecasting is very difficult, especially about the future.”

Immanuel Kant:

A “predictive historiography of things to come in the future” is only possible, “if the foreteller itself makes the events happen, that he has predicted in advance.”

“Renewed Question: Whether the human kind is in steady progress to a better state?” (1789)

Action, not prediction matters!





Thank you for your attention!

Contact:

www.thegff.com

www.z-punkt.de

www.steinmuller.de