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Inside Sweden’s Futures

Reflections on the global context for the evolution of Swedish business

nextwork

Contents

Preamble

"It is difficult to get a man to understand something when his salary depends on his not understanding it."

Upton Sinclair

Writing about the future equals writing fiction. The future does not exist, we can only imagine. Many times, however, reality surpasses the imaginations of fiction writers, even science-fiction writers.

Even such seemingly stable and predictable factors such as nature, climate or demographics have proven less predictable than we suggested only decades ago. Much less so, of course, technology, economics or politics.

Therefore, we have to prepare for a future of inevitable surprises, rather than a future that is “steady-as-she-goes”. This implies that risks are increasing. We will need more robust “balance sheets” in all respects, to meet and mend the probable systems failures that the world will face as we become more globalized, more interdependent and interconnected.

The future is an evolutionary process of ecology and economy – an eco-eco-system. Evolution is change. Not linear, but rather systemic. Understanding at least something about the future is understanding the dynamics of the systems of which we are parts, be they ecological, social, political, cultural, financial or systems of production. They all interact, and we make them interact in new often unpredictable ways.

This report is a reflection on the context in which Swedish business may evolve in decades to come. It is structured into five chapters.

- We begin by discussing how to think about and relate to the future (chapter 1).
- We then discuss the conditions for Swedish business sector in a 10-15 year perspective by discussing the recent past and the present, in particular the dramatic evolution of global interdependence over the past decade (chapter 2).
- We also discuss more thoroughly (in chapter 3) what we call the Ten Top Trends, the driving forces that are at work in the world today.

- To illustrate how these forces might interact at a global level and to show where the world could be heading, we describe two scenarios for the global level (chapter 4).
- To illustrate the discussion on the conditions under which Swedish business will operate, we depict three specific scenarios (described in chapter 5) showing three radically different Swedish business sectors that could arise from the interplay of forces.
- We end with some conclusions remarks.

The report has been prepared as input to the project “Framtid för Svensk Industri”, launched by the Royal Swedish Academy of Engineering Sciences (Ingeniörsvetenskapsakademin) and the Swedish Agency for Economic and Regional Growth (NUTEK). It has been written by Bo Ekman and Alexander Crawford.

<u>Chapter 1</u>

Telling about the Future

The only time we might know something about is the *now*. None of us have experienced past times or times to come. To explore the present without prejudice or blinders is the best starting point from which to imagine the future.

The past is our history, our collective and individual memories. These memories are never static, set once and for all. They are reviewed continuously and accordingly as we gain experiences by moving from one present to the next.

In the *now* we earn our money and live our lives in those spiritual, intellectual, political, social and economic structures that up to now are built and created. These determine our perspectives and our shortsightedness. However, one thing is certain: nothing is permanent. What we call the future is made up of continuous changes. To imagine the future is to try and feel your way through how these unknown changes will dynamically influence and create a state – the future – in which none of us have lived and of which no one has any experiences. To be a “presentologist” can make sense; to be a “futurologist”, in the sense that one could research and find out the future, is nonsense.

To create stories about a future, released from the economic and political motives that contributed to the present state and power-structures is not always opportune or easily grasped intellectually.

“Society” will most of all want the future to be a continuation of the structures and processes already in place. This is assumed to preserve stability and the status quo of power. The power establishments can easily dismiss the more radical stories of future potential paths of development as utopias above and beyond realistic fantasies. Our sense of security appears often to be linked with the idea that what is here and now also shall be in the future.

Risk and uncertainty disturb political, social and economic calculations. For this reason politicians and the business community call primarily for stability and preferably futures with linear developments and with no surprises. This is especially true for the financial markets. Positive forecasts of the future are favored (that which is not too challenging).

They are logical, linear outgrowths from what already exists. The reality/context we "know" is most often limited. Our knowledge is limited and thus our analysis of any situation becomes imperfect.

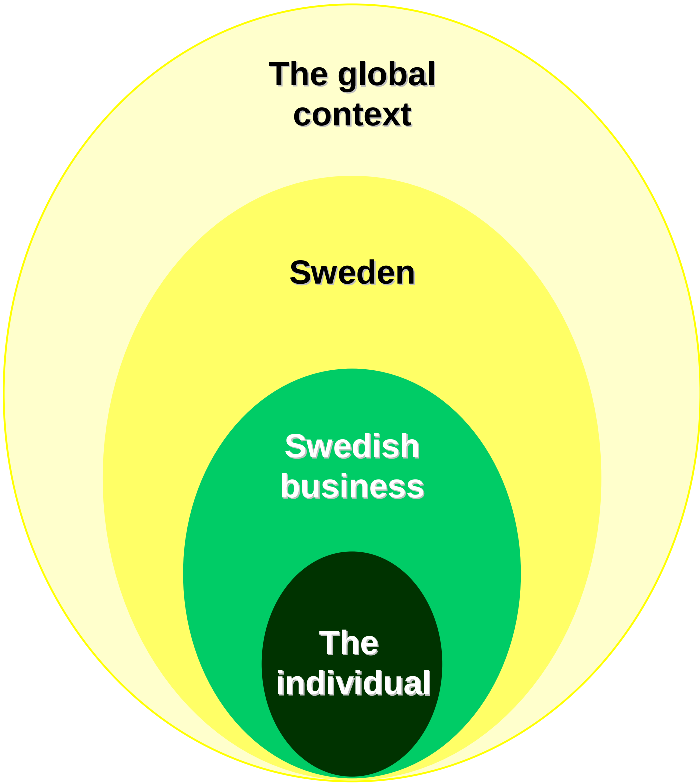
When the activities of a company or nation are relatively independent and self-governing, the need for systems understanding is limited. It suffices to survey the national competitive environment, its rules and functions. Risk and uncertainty seem manageable. But when the system becomes more complex, as when the competitive environment becomes globalized, when the company's or nation's activities become all the more densely integrated parts in a wider political, social, financial and economic systems, then it becomes all the more difficult to scrutinize and understand how one's own activities integrates into and interacts with surrounding systems and sub-systems

A systems view of the whole rather than analysis of the parts

The Swedish term "omvärldsanalys" — analysis of the business environment — should be replaced by "interaktionsanalys" – interactional analysis. It is incorrect to use the term "analysis of the surrounding world" as if the nation, region or company were not itself an important actor that continuously produces effects and consequences upon the various economic and social systems into which they are more or less integrated. The term interactional analysis makes clear that the purpose of the analysis is to understand better "the whole" (not just the parts), the mutuality and thus the consequences of actions by both the actor and the surrounding world. The most important element in interactional analysis is to understand the interactions, the mutual ramifications of decisions and their consequences in one or more stages. All too many analyses of the world around are limited to simple analyses of cause and effects or, even worse, limited to descriptive and anecdotal snapshots with few references to systems consequences of one's activities.

A story of the surrounding world and the future should therefore concentrate on the interaction between the different systems levels as described in figure 1 below. It should always concern the question of how the individual actor (in the middle of the figure) is influenced by changes in the greater system of which it is a part. This discussion primarily concerns the three larger systems: the Swedish business world, the country of Sweden, and the larger, global context.

Figure 1: levels of the surrounding world



In all these systems levels, changes occur continuously. Some are organic, step by step. Other changes are revolutionizing ("disruptive") and serve to shake up both function and logic. There are many examples: introduction of a new base technology such as digitalization, the transition from dictatorship to democracy, the transition from protectionism to free trade, from one energy base to a new one, from rural living to urbanization, from independence to mutual dependence.

In a world where value creation is increasingly taking place in more mutually dependent value chains, systems understanding becomes a decisive competence for survival and competitiveness. But systems understanding must be paired with the capacity for fast learning which in turn makes possible the fast responses and adaptations to the new problems and opportunities as they emerge. Changes occur either through proactive adaptation to the new circumstances that one sees breaking through, or as reactions to those new circumstances that have broken through. The strongest position is the one that leads the development and initiates the change process.

Today our industrial history is under review. We find ourselves at the very end of an extremely materialistic period in human history: industrialism. It is interesting to note that just 40 years ago, without reservation and unaware of industrialism's environmental consequences, we sang its praises, seeing before us the building of a thousand-year industrial society. The “record” years’ optimism for a linear future knew few bounds. Today we look very differently upon the consequences of the growth of the industrial society. Our awareness of the possible limits of energy resources and natural resources – even air and water – has begun to grow. This new awareness leads slowly but surely towards a review of how we see our industrial future, along with how we see the role and place of humankind in its larger ecological context.

History has seen previous civilizations – in every part of the world – reach exceptional spiritual, artistic and intellectual levels without being built on consumption of material resources and what we mean by advanced technology. The Incas, for instance, did not know about the wheel.

Our appetite for resources is unprecedented, insatiable and unsustainable

Industrialism’s breakthrough 200 years ago led to a population explosion that continues to this day. In less than 200 years the world’s population has increased from 1 billion in 1830 to 6.4 billion today. Earlier, the earth’s population remained stable for about 5 million years up to about the year 8000 BC. It rose to 250 million by the time of Jesus’ birth (thanks mostly to the development of productivity brought about by organized agriculture and social organization). The gradual improvement of the agricultural society and world trade drove up the world’s population to 1 billion by 1830. No mammal has grown its population at anywhere close to the speed with which human population has grown since.

The conditions for this growth have been productivity and the depletion of the earth’s resources, organic and inorganic. For more than half of the world’s population, this has created standards of living without equal in history. This is our current state. That this standard of living would be shared by 9 billion people by 2050 is an environmental impossibility with present technological and production systems. In order to be able to realize this “we would need another few planet earths.”[1]

The expectations of the technology optimists is that new technologies will emerge and produce the solutions that will be demanded in order to address both the environmental concerns, the production bottlenecks and the needs of growth. We will soon see new sources of energy, new materials, more effective environmental and energy utilization, newer and more effective crops and farming methods, continued miniaturization (for example, nanotechnology), new information technologies, robotics, new bio-

[1] Jean-Francois Rischard, European Director, The World Bank, at the Tällberg Forum 2005. For the world to live at Sweden’s level of resource usage, 3.5 planets would be required; to live at USA level, 5.5 planets are needed. Source: Earth Day Footprint.

technology, new environmental technology... All of this will continuously create greater resource efficiencies. The world's economic growth, according to these optimists, should be able to continue uninterrupted thanks to new technologies that will make it possible to create much more value with increasingly less resources, less energy, less labor, less capital.

This outlook presupposes that the content of knowledge in everything man produces will increase dramatically through education, research, development and innovation: in short, the building of human capital. We would enter an age when man's creativity is unleashed with a completely different scope and scale than during the industrial age. The concept of "Limits to growth" would be replaced by "growth beyond the ecological boundary conditions". We would enter a period – let us call it neo-industrialism rather than post-industrialism – where human development precedes economic growth. The emerging understanding is that the only unlimited, renewable resource is the creativity and adaptability of humankind. .Any given individual has her limits, but as humankind a collective is probably capable of unlimited magnificence and total destruction.

Whether we are moving towards a future characterized by climate change and growing scarcity of resources or a future characterized by an unprecedented speed of innovation and successful technological developments (or perhaps both), the future will present us with extraordinarily dramatic changes.

We do not know which solutions will work in our society ten years from now, much less 25 years ahead. We must bear in mind, however, that these are still very short perspectives of time. In order to understand the futility of such prognoses, we need only reflect back to the year 1988 to realize how limited our ability is to foresee the world that lies 20 years ahead.

There are hopeful signs that our societies tend to take a less deterministic and more evolutionary view of how the future will play out. However, there are also today very strong value-driven forces that take strong deterministic/fundamentalist views of the world and the future: the Christian Right in the United States, Islamists across the Muslim world, ideology-based dictatorships such as China. When such visions of the future are promoted with the use of force, arms and even terrorism this increases uncertainty for all.

Greater common threats, but weaker common institutions

A paradox that we will be returning to in the following chapters is that we have today more well-defined threats to current lifestyles at the same time as we have weakened institutions to deal with these problems, and the problems of increasing systems interdependencies, of globalization. The problems and opportunities that the future offers will for the foreseeable future be managed and solved by political systems and institutions that are still for the most part grounded in their national contexts.

The world is experiencing growing nationalism as well as an expansion of religious extremism/fundamentalism within both Islam and parts of Christianity. At the same time, both the EU and the UN have been constitutionally weakened in recent years.

The mutual distrust within the multilateral system appears to be correlated with the strengthening of mutual dependencies. Opposing interests are still creating a world in which we are better at living apart than at solving problems together. Distrust is marring the international systems of governance. Business is actually offering not only a complement but even something that can to some be viewed as an alternative.

The antagonisms between north and south, east and west, between nations or cultures, between groups of nations, within nations, all these inhibit rapid and effective solutions of supranational problems, be they temporary or systems-wide and long-term. This may concern access to oil, other fossil fuels or water, access to markets, access to food and other raw materials, access to capital and knowledge. The margins are thin, both financially and politically, to meet both the offensive and defensive needs of the future. The world operates at the edge – energy-wise, environmentally, financially and politically. The risks are considerable. It will take luck, shrewdness and skill to manage the conflicts that will be generated by the fast-paced change that emerges from the timelines and the dynamics that we call the future.

Gaining power over the stories of the future

The future is also about stories. Stories told about the future often reflect the interests of the storyteller simply because the storyteller wants a specific future, simply because it is in the interest of the storyteller that his or her specific future should happen. Rather, the storyteller is motivated more by solving the problem of the problem-solver/storyteller than of the problem itself.

Thus competing parties always give dramatically different pictures about the present and the future in election campaigns. They give very different analysis of reasons, causes, and trends. They have staffers, economists, lobbyists and media to support them in <u>their</u> storytelling. For example, in Sweden today, there are conflicts over whether there is such as thing as climate change, over the origin of climate change and environmental threats. There are arguments over the effects of greenhouse gases on temperatures and weather. There are also strongly divergent opinions on the relative performance and position of the Swedish economy.

The debate over the future is really about power: a government wants to remain in office. The opposition wants to win political power. A corporation needs continuously to convince the financial markets that its strategies are “right”. Consumers also need to be persuaded that the product is “right”. The debate over the future is always mirrored by the power-broking of the present, which as know does not always lead to the wisest strategic decisions.

More often than not, decisions should be taken “out of the box”. This means that they should be discussed in the perspective of <u>a future desired state of the world</u>, rather than be framed by a confinement to the present. The discussion on the evolution of the EU and the UN are good cases in point. Strong, clear visions are needed and they need to be based on common values and an agreement on which problems these multilateral organizations must be capable of solving in the future. A good example of out-of-the-box thinking was the Bretton-Woods agreement in 1944, which gave birth to a multilateral system of governance that has survived for 60 years. The system has been effective in some situations, less so in many others. The economic and political environment of the 21st century calls for a reformed UN.

There are numerous disastrous examples of what long-term harm “in-the-box” solutions to long-term problems can have. “In-the-box” solutions are invariably short-term mending of longer-term problems. One such is the Treaty of Versailles of 1919, that came to deform much of the rest of the century, politically, economically and socially.

On change

Peter Drucker once said that you always have to make your utmost effort to do “the right things”, alongside “doing things right”. The superior position is to do the right things right but it is better to do the right things wrong than do the wrong things right, not to mention to make the wrong things wrong (which is to throw good money after bad).

“Out-of-the-box” thinking and action takes courage. Upton Sinclair, the American writer once observed: "It is difficult to get a man to understand something when his salary depends on his not understanding it." Change is indeed difficult. It is far from sure that a person, even if he or she has gained a new understanding or a new frame of reference, will change his behavior if his salary is dependent on old insights and old logic. Power structures and incentive and fiscal systems play a decisive role in formatting people’s behaviors – for better and for worse.

People need both stability and change, in varying degrees. In our culture we tend to think of change primarily in positive terms. "Think positive" has been the fashion of the day. Market communication and political messages promise security, safety, love, youth, wealth, welfare, new looks, happiness, higher performance, more for less, a carefree future – life as a party. Sadly it is not.

The promises that we are fed (for instance through the efficiencies and success of the promotional and the marketing industries) distort the possibilities for more reality-based and broader public debates on the future.

As we look at the near past and the now, the debate on the future might just as well be about the threats – wars, civil wars, pandemics, unemployment, mental illnesses and disturbances, divorce and loneliness, deadly hurricanes, flooding, desertification, executions, terrorism, violations of all kinds of human rights, enslaving of women and children, ethnic discrimination or growing corruption – as about the promises of good times to come.

How then can we have a more comprehensive discussion on the future? Two approaches, two tools are often employed: visions and scenarios. A **vision** is an idealized design of how one would like to see how "things" should be, <u>now</u>. Not in a more or less distant future about which we by definition do not know much. A vision is both an expression of values and of a desired "state of things." A vision is to go, in your imagination, beyond the realm of the presently possible and then analyze how this envisioned "state of things" could step by step become realized – a process design. A vision is always realized through practical successive steps in the present, not in the abstraction of the future. To reach a vision is always an adaptive, learning process.

"Folkhemmet", "The American Way of Life," "Freedom Now," A Man on the Moon," "Halve poverty," "A PC in every home." All these are examples of easy-to-grasp visions of desired orders of things, of how the world ought to be. Economic and political entrepreneurs are often vision and value driven. They design their strategies to realize their visions of how they want to organize or re-create a business (IKEA's "to create a better everyday life for the many people"), reform a nation (Folkhemmet) or improve the living conditions for an even wider part of humanity (The UN's Millennium Development Goals).

A **scenario** is neither a vision nor a forecast. A scenario is a consistent and coherent <u>story</u> about how a future could be configured, given certain assumptions. A scenario process is a kind of learning process of how potential futures could play out. Scenario work always builds upon a systems approach and weaves together many complex aspects in its image of a considered future reality.

History provides us with memories of our past. Scenario work provides us with memories of our possible futures. That being said, scenario work has both analytical and intuitive dimensions. Scenario work is also an arena for fantasies. The purpose of scenario work is to help us prepare for future decision-making processes which today may seem altogether both out of context and unrealistic.

But history clearly shows us that the development of “the future”, taken in whatever time perspective one chooses, differs from the logic that we ourselves apply to a current state in which we happen to find ourselves. Scenarios should stimulate intuition, discussion, analysis and imagination. Scenarios are not made to be right or to get it right, but nevertheless one or the other scenario might by coincidence actually coincide with what the future has in store for us.

Chapter 2

Globalization and Sweden's Industrial Future —a history of the present

How will Sweden perform in the continuous change and renewal that the globalized world economy offers? What will we work with? What can we sell? How can we stay competitive in the future and in as yet unknown market conditions? To what extent will the future be a mirror of our now-world? To what extent will it be a product of the trends that we can discern today and have seen for a decade or longer? Will those who live and work in Sweden become winners or losers? What will our roles and place be in the globalizing system of value creation, this vast networked economy of worldwide integrating linkages?

This fast densification of mutual dependencies is what we have come to call globalization. Globalization is a process which is primarily driven by every individual's desires: for higher productivity and wages, cheaper products, higher returns on investment and on pension capital, more welfare and more secure lives. Technological breakthroughs, innovations and new markets push globalization further… and further.

Globalization is not a conspiracy by a few capitalists or a few corporations. It is certainly not driven proactively by nations and governments. It is not formulated as a major political objective in any election campaign. Globalization is, in the true sense of the word, a process without a master. It is evolutionary. Its consequences are, however, occasionally devastating to individuals and communities, to jobs and to the environment. In the words of Spanish sociologist Manuel Castells, "globalization is not reversible, but it is not necessarily sustainable". It is not under any discernable control.

A nation-state such as Sweden has increasingly less power over and in this process. The positive trade-off for Swedish citizens is cheaper products and higher standards of living. Sovereignty becomes more of a hollow construct in economic policies, foreign affairs, energy policies and wage formation. Protectionism and national models entirely of one's own making are all the more difficult to sustain. But nevertheless – there will be winning and losing nations, regions and most definitely companies.

Right now Sweden is one of the winners. Sweden places among the very top nations in various international rankings. The World Bank listed Sweden in 14th place (of 155 surveyed nations) when it came to business climate (New Zealand claimed first spot, Norway placed fifth). We are among the very top of the rankings on human rights, social order and security, which gives us a top position in the Human Development Index (UNDP).

In the latest Global Competitiveness Report[2] from the World Economic Forum, an analysis of competitive power among nations, the ranking is topped by Finland and the USA with Sweden in third place. Countries that are admired in Sweden, such as New Zeeland, the UK, Switzerland or Singapore all scored lower rankings.

There are many other rankings of nations, by Gross National Income, or GDP per capita (there are about 15 countries that surpass Sweden according to these two measures). Our desire for comparisons and competition is however making us forget some basic facts when it comes to the competitiveness of countries, a distinctly less measurable quantity. The economist John Kay writes: "Interest in national competitiveness is an extension of interest in the competitiveness of companies. But the analogy between individual businesses and national economies doesn't quite hold. Companies that are not competitive disappear. Countries that are not competitive don't. [Therefore], the concept of national competitiveness is one that creates more confusion than insight"[3]

From a social point of view, Manuel Castells observed that the Scandinavian countries seemed to be "a kind of sanctuary or reservation of countries where people still are respecting the political system and politicians, combined with a relatively honest and efficient public sector". A recent global Gallup survey reveals that leadership in Sweden, Norway and Denmark also register at the top when it comes to confidence in the political leadership. The universal trend is that trust in and respect for politics is declining and corruption is on the rise. Martin Wolf wrote recently that "The conclusion is that Europe has models of economic policy that seem to work tolerably well and offer something very different from 'savage capitalism'. This is dramatically true of the Nordic model."[4]

This does not, however, mean sheltering the corporate sector. As Stephen Roach, Chief Economist at Morgan Stanley writes, "Private-sector corporate restructuring is the main agent of change. That has been the case in Japan in recent years, and is now

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[2] World Competiveness Report 2005-2006, produced and published by the World Economic Forum (www.weforum.org)
[3] John Kay, "The question of how countries compete", published in Financial Times, 16 May 2005.
[4] Martin Wolf, "Europeans can look to each other", Financial Times, 13 September 2005

the case in Europe. In all of these instances, politics was a secondary consideration, at best. All the government had to do was get out of the way and let competitive forces take their normal turn of events. By endorsing trade liberalization and deregulation of long sacrosanct service industries, politicians exposed bloated and complacent companies to the harsh market-driven pressures of creative destruction. Once sheltered, then exposed, the choice for businesses boiled down to restructure or perish. It was that simple -- that brutal."[5]

Competitiveness, flexibility and safety nets

It seems that the best combination for competitiveness and economic growth, at least in a European context, is a blend of open markets, labor market flexibility and solid, trustworthy social safety nets for those who inevitably become the losers in the globalization processes of "creative destruction". There are parts of the workforce that have weak health, physical or mental capabilities, have the wrong skills or simply live in the wrong places. Age also plays an important part in one's labor marketability.

Sweden's deep tradition of equality and social welfare for all seems actually to be a major part of our competitive advantage. Virtually all European countries have a margin of some 10 - 20 percent of the work force that is "inactive". Depending on the country's choice of labor market statistics, this group surfaces in various parts of the statistics (inactive, disabled, sick, unemployed, etc.) This seems to be a rather common size of the cost of change. The winners will be those countries that will be best in **providing livelihoods** to these segments of the labor markets, in bringing them back into competitive jobs through skills and competence development, in keeping them out of despair, alcoholism and social marginalization (retain their social dignity), in developing local labor markets for jobs that **always** need to be done (and can **not** be outsourced) like childcare, maintenance, gardening, care for the elderly, household services, community services. <u>There is no lack of work. There is a lack of jobs. Or lack of functioning labor markets for all jobs and all people.</u>

The Swedish debate on the country's own performance does not reflect the positions we are given by these international rating and comparative studies. In Europe – wherever you go – Sweden is looked upon as a economic/social leader. The domestic debate however, is one of deep discontent with the current situation and future prospects. The main reason for this, we believe, is that the debate is as much over the political power as over political substance. All these high ratings are embarrassing to those political parties (and their supporting stakeholder organizations and economists) that for ideological and other reasons want to see a change of government – and of

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[5] Stephen Roach bi-weekly comment from 10 June 2005, to be found at www.morganstanley.com.

course vice versa. If the debate in Sweden was conducted on a relative (to others) platform rather than in the absolute (to ourselves) the debate would be different.

The performance of Swedish business is mirrored in the performance of the Stockholm Stock Exchange. So far, at the end of September 2005, the SAX index has risen 23 percent in 2005, one of the best performances in the world.

A problem does not always get solved according to the needs of the problem. But rather according to the needs of the problem-solver (e.g. in the political bargaining between the government and its supporting parties). This does not imply that we in any way mean that a climate of self-satisfaction should develop and prevail! But we believe that it would be constructive if the debate over future policies and strategies recognized the true strengths of Sweden's position in its globalizing wider context. This position can and must, indeed, be taken even more strongly in view of the formidable risks and challenges ahead. At present Sweden has grown at rates of 3 - 4 percent per year. We are a front-line European nation **despite** the fact that one million of the working population does not go to a formal job every day. Imagine the growth rates that the country would produce with another 500 000 active in the labor market? (Or are they actually doing jobs outside the formal labor market that need to be done for the high growth that is realized?)

Such an achievement would put Sweden to the very top of all ranking lists. Achievable? Of course, with the smartest combination of disciplined macro-policies such as trade, budgetary and fiscal discipline, inflationary controls, floating exchange rates, competitive wage formation, effective capital markets, **and** policies increasing flexibilities of the micro levels of the economy. The flexibility needs to be increased for entrepreneurs and small businesses, both in order to support investment, capital formation and mitigate the risk of employing people. Also very small companies must seek and maintain global competitiveness in the future.

Business – and the public sector – will have to adapt and innovate faster in response to the pace of globalization. The recipe is thus stable macro regimes combined with flexible microeconomic flexibilities and dynamic social/economic safety nets for those who become victims of change and competition. This is what in Denmark and the UK is called Flexicurity. The UK Chancellor Gordon Brown said recently that "in the new world fairness and flexibility depend upon each other."[6]

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[6] Gordon Brown, "Why it is make or break for European social reform", in Financial Times, 12 October 2005

Swedish strengths and weaknesses

Our current performance does not, needless to say, in any way insulate Sweden from future shocks and failures. Success is always difficult to cope with and to manage wisely. But the Swedish performance over the last decade – after the bitter lessons learnt from the mismanagement of the Swedish economy in the 1970's, 1980's and early 1990's – provides a promising platform for the future. This is an asset.

Sweden has many strengths when seen from a broader international perspective. Among them is a reasonably diversified and profitable industrial and business sector, well functioning finance and capital markets, a responsible and progressive labor union movement. The environment for business in Sweden is good.

Among Swedish long-term strengths are its social structure and stability, a well-educated population, a social safety net and a welfare system that still seems possible to sustain financially. Sweden has a growth rate that ranks at the top in Europe, in spite of the fact that a significant portion – around a million —of the population between the ages of 16 and 64 are not active in the open employment market.

There are weaknesses, of course. One million people stand outside the labor market. The level of youth unemployment is among the highest in Europe, which casts doubts over the way in which the education system (and higher education in particular) is tuned to the needs of the labor market. Low levels of entrepreneurship have depleted the base of mid-sized companies. Regional imbalances have resulted in the accelerating decline of those parts of the country that lack a healthy business sector of small and medium-sized companies. Sweden still has a long way to go towards the economic integration of immigrant populations.

All in all, Sweden has a proven tradition of consensus-based "defensive pragmatism[7]" where problems are solved though pragmatic compromises in both politics and in the workplace. All this provides a "capital base" that yields a combination of short-term stability (a relative strength today) and long-term maneuverability for decisions that step by step bind us to certain futures.

Sweden is a small country: 0.13 percent of the world's population, only 0.09 percent of the world's children. Sweden is a small market, which can hardly consume much more of cars, homes, food. The Swedish standard of living presupposes that we have a share of the world's markets that is perhaps ten times our share of population – a kind of "factor of ten." We will thus continue to draw on a proportionally far greater share of

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[7] A term coined by Hubert Fromlet, chief economist of FöreningsSparbanken.

the world's resources than most other countries. We can only accomplish this by being more competent, more productive, more cost-efficient – more competitive. The most important ingredients of competitiveness are capital, knowledge, competence, relations, social fabric and – as in all times – cost-efficiency.

Competitiveness is also derived from the aggregate competences in society, infrastructures and business structures. It is highly possible that in the long run Sweden can survive without auto factories, but definitely not without schools, universities, hospitals, police, an independent system of justice or environmental regulations. (Most probably, confidence in the future and willingness to take risks increases with the knowledge that the social safety net can catch you if tough times or catastrophes arise – be they factory closings or hurricane Gudrun.)

This means that "the Swedish model" will continue to constitute the platform for Sweden's further societal (social and economic) development for a long time to come. This is also emphasized by the current movement of the conservative party towards the political center. Politics in Sweden are currently moving away from confrontations between two very different political offerings and visions. Rather, we see the Social Democrats and the Center/Right alliance converge in the middle and offer two alternatives for the further development and adaptation of a commonly accepted fundamental "Swedish model".

The Swedish model has step by step been adjusted – or been forced to adjust – to changes in the world around us. We are a mutually dependent and integrated part of that world. Deregulation, open financial markets, currency reform, privatization, new technologies, digitalization, internet, globalization of the world economy, EU membership, changed demographics, China's and India's fast growth and entrance upon the world's stage are all trends that have changed Sweden over the last 25 years. Overall, the pace has increased, as has the intensity. The foremost political task is to maintain standards of living and welfare in this torrent of structural change.

As a result of this development Swedish business and enterprise have also changed – in ownership and structure, in competences and occupations... Value chains have continuously new configurations and designs, as do business models and business strategies.

It is certainly a truism that business operates in "tougher and tougher competition." This is how it has always been and how it will always be. What is new, however, is that corporations operate in a business environment that is getting more and more difficult to grasp, to understand, that is more complex and uncontrollable. The risks are increasing, not least the system risks that arise when mutual dependencies become highly integrated and interwoven with and into global systems.

What is globalization?

What, then, is globalization? “Global” is an abstraction that describes that many places on earth are increasingly interdependent – economically, financially, market-wise, production-wise and logistically, but also demographically, culturally or environmentally. Obviously the earth has always been a complex ecological coherent system – the biosphere – in which man is but <u>one</u> species. This system is in continuous change and development and species are in continuous evolution.

Globalization – the densification of already existing or latent interdependencies – is a process driven by economic motives. Globalization is not a political project. No nation follows and no political party anywhere goes to election on a “globalization platform.” More like the opposite, as many countries right now have slipped into neo-nationalistic or religious/cultural sectarian trends: “We for us”.

The notion of our control over our own lifestyles in a world of increasing interdependencies has caught on. The ongoing flows of migration speed up and intensify cultural and social conflicts. These conflicts also contribute to the outbreak of our era’s great scourge – terrorism. A major conflict that lies ahead is the one between our needs to express our social/cultural identities (staying who we are) and our desire for ever-increasing standards of living (through increasing interdependencies).

Globalization yields growth but also means watered down social and political control. This conflict is explosive because it runs deep into the existential question of who we are and who we want to be: identity, community, lifestyles and values.

Globalization is our era’s word for the most effective strategies and methods to bring about productivity, added value and growth. Capital seeks out those technologies and competencies that open up and exploit new productivity potentials. So it has been throughout time. Step-by-step trade and division of labor developed. The methods have evolved and changed over time: empires, feudalism, mercantilism, industrialism, colonialism, imperialism, internationalization and now globalization. Internationalization meant expansion from one country of one’s operations into new markets, while clearly maintaining roots and national identity: Swedish quality, Swedish competence, Swedish raw materials, Swedish values, Swedish ownership, Swedish control over production and marketing.

Swedish industry's expansion during the 1950's, 1960's and 1970's was based on this perception of identity, often based on deep, vertically integrated value chains (even if that term is a later invention). Most of the large Swedish industrial companies of the postwar era were Swedish "multinationals", but as late as in the 1970's Volvo still defined itself as "a Swedish, internationally operating company."

Globalization of the value chains and systems of value creation increases dependence and therefore risks. Some risks are temporary; others are permanent. For example, Sweden no longer has the ability – the industrial system – to manufacture clothes or ships. But we can still, thanks to natural conditions, subsidies and trade barriers, produce enough food in many areas (e.g. dairy products and to a lesser extent meat[8]) to cover our needs. We produce more electricity than we consume. Self-sufficiencies will also in the future be a factor influencing Sweden's manufacturing structure.

The Swedish automobile industry still represents an intact industrial system, even though it is deeply integrated with sub-suppliers and distributors in many other countries. The automotive industry has a unique position and should it to a significant degree be moved out of Sweden, the resulting drain of competence would be irreversible. The risks should not be ignored as both Volvo Car Corporation and Saab Automobiles are owned by American corporations with global reach and perspectives – and global problems. In 2002, Volvo produced less than 6 percent of the 7 million vehicles built by the Ford Motor Company, and Saab built a mere 0.5 percent of the 8.6 million cars built by General Motors.

Globalization is a mechanism at the macro level for the allocation of resources and for the playing out of national (and corporate) comparative advantages. Globalization drives regional specialization across borders. One could say that the world economy's center of gravity right now is moving 1 degree eastward every month.[9] USA and China are the two opposing poles that must find ways to arrive at stable financial and trade agreements. Relations between the USA and China are one of the most important factors for stability of globalization in the future.

But can one trust globalization, in the sense that it is not broken up by new waves of trade wars and protectionism? Can we be sure that the structures and processes it creates will be robust and have staying power? Will the winners take it all? Or will there be a fairer distribution of opportunities, income and wealth among nations? Will

[8] Data compiled by EuroStat (published by the Swedish Board of Agriculture in "Jordbruksstatistisk årsbok 2005") In 2002, Swedish production covered 100 percent of the consumption of milk, cream and butter, 93 percent of eggs, 89 percent of pork, 86 percent of poultry and 72 percent of beef.
[9] According to a thorough analysis that BP carried out. Cited by Nick Butler, Chief Strategist at BP.

institutions and processes emerge that effectively address the problems and imbalances that globalization has produced?

Governance of globalization's problems and opportunities is at present more reactive than proactive. Global government takes the form of makeshift processes with initiatives such as the Kyoto Protocol, the Doha Round, the G8 Summits, G77 etc. These try to fill a vacuum of governance. A diversity of initiatives and networks are taking root. Global responsibility is also taken to a growing extent from the bottom up in the non-profit sector, the so-called social economy.

The capital that drives globalization has less (and less?) ties to national interests. Does this mean that capital will take over? Hardly. Nations – democracies and dictatorships – have for the most part a monopoly on legitimate force (military and police). They also have the unambiguous final responsibility for their citizens' welfare and security.

Terror, genocide, corruption, organized crime provide a far greater threat against this order than capital and business. The control by nations over their force will set limits and boundaries for globalization.

How stable are the systems that lay the foundations for continued globalization? The future of globalization, the factor that more than any other will shape the future of enterprising and business in Sweden, will most probably be a dialectic process between the seizing of profitable opportunities and the credible mending of the negative consequences. Winners can not take all. No one can be allowed to control everyone else. It will be more important to build global mechanisms of problem-solving (from climate change to financial imbalances) than maximizing short-term growth opportunities.

A breakdown of trust could produce a world of protectionism and national/regional/tribal strife. A gradual buildup of trust will create a world of opportunity – also for Swedish business.

It would be imprudent not to count on very significant disruptions in the working orders of the global systems. The next chapter goes through the ten most important driving forces ("Ten Top Trends") that are shaping the foundations for Swedish trade and industry, from a 10-15 year perspective.

Chapter 3

Driving Forces – "Ten Top Trends"

If we make the illogical assumption of cumulating all the worst possible threats and trends, the conclusion will be that the world derails. In such a perspective, our troublesome present in the fall of 2005 would look like the Garden of Eden.

Of the ten trends/driving forces in the decades to come, the two fundamental ones are:

1. **ECOLOGY: The strong growing consensus in the scientific community that the environment/ climate/ energy equation is not being resolved**

and

2. **PEOPLE: The increased demographic imbalances between the ageing populations of the rich world and the still young growing populations of the poor world**

Ecology and people are the two dynamics that are the sources of all other driving forces. Human beings (demography) are, of course, an integral part of the ecosystem – as is the economy, the eco-eco-system. Human beings differ from all other species in that their decisions and actions impact/intervene in the natural flow/harmony of the ecological balances. Climate change is part of the dynamics of the ecosystem, as are geological disorders such as the recent earthquake in Pakistan and the Tsunami disaster in South Asia. California stands in line for a major quake.

Oceanographers and meteorologists have drawn the conclusion that if not the number at least the intensity of hurricanes is growing because of the warming of the oceans. The world-renowned Scripps Institution of Oceanography (University of California) concluded earlier in 2005 that the observed warming of oceans could only be "man made" and they concluded simply: "The debate is over"[10].

Of course, the debate is not over and will perhaps never be. There are such strong and powerful vested economic and political interests in protecting a status-quo of, for example, present oil-based energy systems. Doubts will continually linger on whether climate change (that is visibly happening) is man-made or part of a naturally induced cycle of change. Yes, the weather has gotten warmer (and cooler) previously in history.

[10] Researcher Tim Barnett quoted in the San Francisco Chronicle, 19 February 2005.

But never before in history (as shown by data from ice core dug out of glaciers) has the concentration of carbon dioxide grown more sharply.

The world population was stable at 5 million over 125,000 years, until man began to organize in societies about 10,000 years ago. The population grew to 250 million by the year 0, and the first billion was only surpassed early in the 19th century. But in the last 250 years – just a twinkle in the passage of time – the world population has increased by 5.4 billion. We are heading for another billion in growth by 2050. A change of such magnitude cannot happen without profound effects on the world's ecosystem, including the climate, not least since human activity requires energy. Therefore, there are good reasons to take the "Cry wolf!" warnings of the scientific and environmental communities seriously.

The most obvious risks we face now, as we view towards the longer future, are the destabilizing consequences of energy bottlenecks and shortages, and climate change. The shift from a global economy based on cheap carbohydrates (oil, natural gas, coal) to an economy based on clean, safe – and probably more expensive – energy sources is neither secured nor responsibly planned for. As it stands today, the environment/ energy/climate equation just does not add up. Jeremy Rifkin wrote recently: "We are entering the last few decades of the oil era, with ominous consequences for the future of a global economy that is utterly dependent on fossil fuels. While our petro-geologists are not sure when global oil production will peak - the point when half the world's recoverable oil is used up - it is clear to all but the few delusional souls in the oil industry that the beginning of the end is now in sight."[11]

There are a number of possible, discrete events which could prove to be exceedingly destabilizing and act as "Tipping points" in the Environment/ Energy /Climate context[12]. Here are nine such possible developments:

- When the concentration of CO_2 in the atmosphere exceeds 450 ppm (parts per million), from today's 378 ppm.
- When the increase in global average surface temperature since 1900 exceeds1°C (over the past 100 years, the best estimate is that it has increased by 0.6°C, with a margin of ± 0.2°C [13])
- When the average price of oil exceeds $100 per barrel
- When oil consumption steadily exceeds new discoveries of oil reserves per year.

[11] Jeremy Rifkin comment published in The Guardian, 23 September 2005.
[12] For a detailed description of climate change, see for instance the Intergovernmental Panel on Climate Change (www.ipcc.org) or Pew Center on Global Climate Change (www.pewclimate.org).
[13] Source: Intergovernmental Panel on Climate Change, 2001

- When insurance costs incurred by climate extremes exceeds $500 billion per year for several years running[14]
- When the area covered by sea ice in the Arctic shrinks to under 5 million square kilometers.
- When 2.5 billion people lack access to clean drinking water (1,5 billion today)
- When the number of hurricanes in the Caribbean, Gulf of Mexico, Central America and Southern United States exceeds 30 per year, including 5 “category 5”, (and 10 large typhoons in Japan and China).
- When we see a clear, measurable increase in the intensity of monsoon rains and other tropical rainfalls, coupled with extreme droughts in other parts of the world.
- When the shrinking glaciers of the Himalayas can no longer properly provide water to the seven great rivers that are the source of water for 40 percent of the world’s population.

Today, the increase in the cost of oil and energy are in focus. They will lead to a redistribution of income, consumption and production patterns. Will the producers of conventional Swedish manufactured products be able to adapt to such a shift, e.g. the car and truck industries? Is Europe’s industry in better shape in this respect compared to the United States or Japan? Regardless, our oil dependency will become something very negative: dependencies diminish maneuverability. The Swedish government’s new strategy announced in October 2005[15] to rid Sweden of oil dependency by 2020 is ambitious and sound.

At the same time, enormous sums of capital are being transferred from oil consuming to oil producing countries (an increase of $260 billion only for the year 2005, at an average oil price of $50 per barrel). The winners are countries like Saudi Arabia, Nigeria, Angola, Iran, Iraq, the United Arab Emirates and Russia (80 percent of Russia’s export revenue comes from oil and gas, and especially from China). Furthermore, there are neo-nationalistic tendencies in oil producing countries such as Bolivia, Venezuela and Ecuador. And the link between the oil trade and organized crime and corruption is strong. Substantial parts of oil incomes are siphoned off to black or uncontrolled markets. And of course, demand for oil is escalating due to rapid growth in China, India and the rest of Asia.

New future energy sources will cost more, because of shortages and a greater knowledge content. Fossil fuels are really nothing else than ancient, stored solar energy. Oil, natural gas, coal, shale, etc carry in themselves no knowledge content, no value added. The refining processes create value-added on the fuels’ way from source

[14] They amounted to approx US$50 for 2004 and will be far greater for 2005.
[15] Article by Mona Sahlin in Dagens Nyheter Debatt, 1 October 2005.

to consumer. When we now have to move over towards sources of energy that we ourselves have created, the costs will increase.

The most natural would be, for many of the oil producing countries, to use some of the vast profits stemming from oil extraction to finance the development of new clean renewable energy sources. Similarly, the automobile industry should for decades have been investing heavily in product development of new configurations of energies and new fuels, but also new transportation solutions and vehicle concepts for flexible movement of people and goods in another energy environment compared to what has been prevalent during the past half-century.[16] However, we are finally starting to see some growing activity to this end.

If the Swedish automotive industry had had its equivalents to the old public utilities Vattenfall or Televerket, perhaps the development had been different. No one can deny the very important role that these two public utilities played for ASEA/ABB and Ericsson through their investment and purchasing strategies as part of building a robust infrastructure and knowledge-base for the country. This tells us that the investment choices with regard to new technologies made by public bodies or international organizations are very important for Swedish industry and research. Recently, Tony Blair urged the international community to “pool its science and technology resources for crash programs to develop the new energy systems, and technologies to curb the emissions and effects of greenhouse gases on the environment”[17]. Together with his Chief Scientific Advisor Sir David King, Blair placed these issues at the top of the agenda at the G8-meeting in Gleneagles in July 2005. It is important to note that a growing number of global energy and industrial companies are acting as strong supporters of concerted action by national governments (including the US Administration) to radicalize their climate policy through agreements and regulations. For instance, Europe’s electricity and oil companies paid a visit to Tony Blair well before the G8 meeting. One of the spokespersons was Lars G. Josefsson, CEO of Vattenfall. Also, the Chairman and CEO of General Electrics, Jeffrey Immelt, announced in February 2005 that GE dramatically shifted its stance in the climate issue, presented new products and systems. Immelt accused the US Congress for

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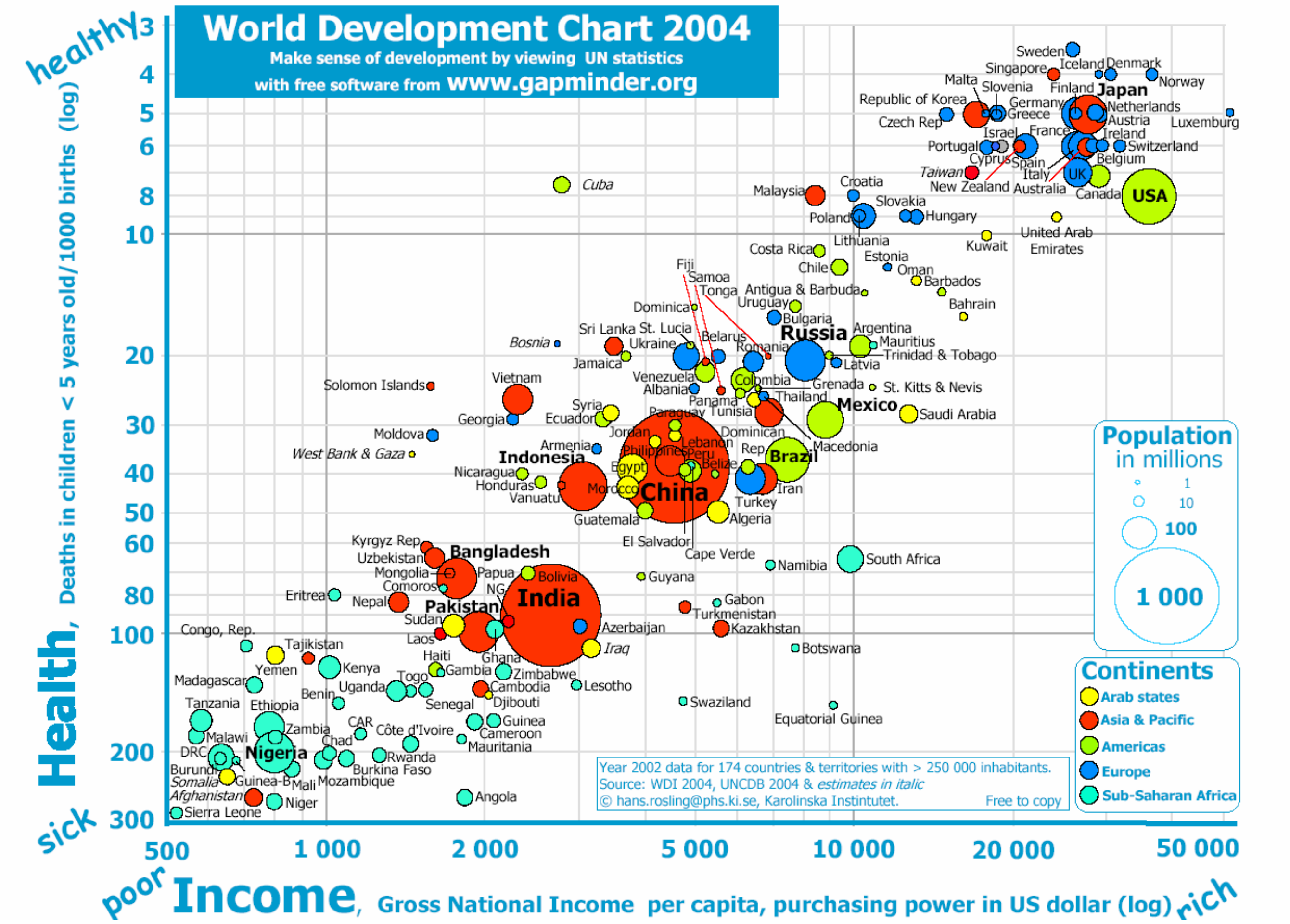
[16] Together with the Swedish government, Volvo initiated in 1974 the creation of a research and development corporation for new fuels (Svensk Metanolutveckling, later renamed Svensk Drivmedelsutveckling AB). This company operated in constant conflict with the vested interests of the automotive and petroleum industry. The low oil price made biofuels ”unprofitable”. Today, 30 years later, the market for biofuels exists, mainly thanks to the increase in oil price. Meanwhile, emissions from carbohydrates have accentuated the greenhouse effect. Thirty years have been lost, yet another good example of the market’s inability to act pro-actively and with the long view: the market has not fixed the problem. Marknaden har definitivt inte ”fixat” problemet. The Swedish automotive industry and fuel companies could have become world leaders.
[17] At the Clinton Global Initiative’s meeting in New York, 15-17 September 2005

passivity. He thereby joins the growing group of global business top executives who are showing leadership in this field, alongside Lord Browne of BP[18].

Alongside the enabling and constraining realities of our natural environment (including climate and geology), the realities of **demography** are also fundamental in understanding the driving forces. Countries' levels of development when it comes to demography (and also economy) can be summarized in the chart below. It tells us, among other things, that it no longer is meaningful to refer to a homogeneous group of "Third World" countries. Every continent has both rich and poor countries, with healthy and sick populations. What is more, the dynamics of these statistics would show how quickly some countries can improve (e.g. Egypt or Iran) or deteriorate (e.g. HIV/AIDS stricken Sub-Saharan Africa).

Figure 2:



Source: Data from UN statistics, graph by www.gapminder.org

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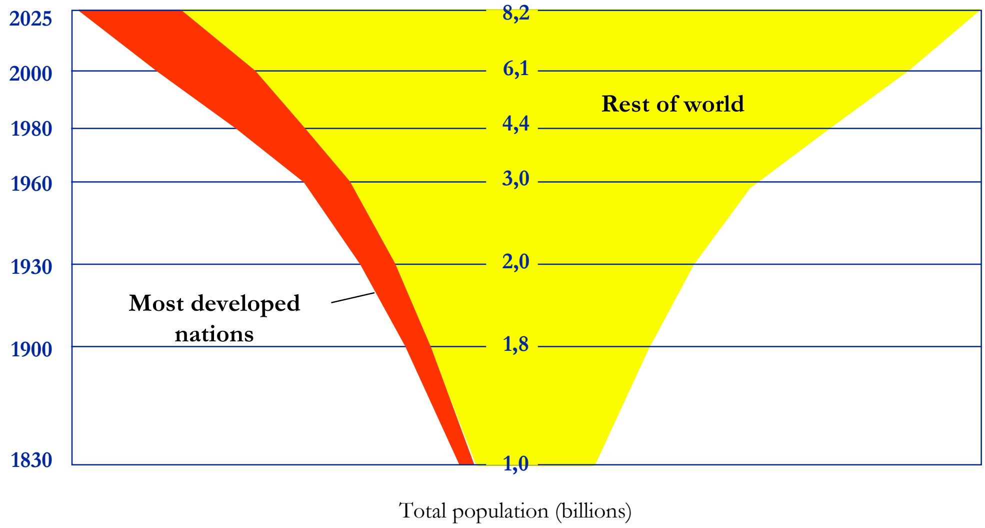
[18] It is also worth noting that the global corporations' own organization for these questions, the World Business Council for Sustainable Development in Geneva, has in recent years acted wisely and has built and spread knowledge on these issues. The WBCSD has 180 member companies and is headed by Björn Stigson.

At the global level, this decade will witness a number of important demographic events: We will reach a total world population of 7 billion. This growth is not coming in developed countries (the population of these countries will remain virtually unchanged up until 2050 but actually decline in much of Europe) but rather in the less developed world. The population of the 50 least developed countries is projected to more than double. In some countries, such as Burkina Fasso, Chad, Congo, Liberia or Uganda, the population is actually projected to triple between 2005 and 2050.

Figure 3: The world population



Source: Data from World Bank

These population projections take into account the slow pace of improvement of mortality and health conditions. In particular the HIV/AIDS epidemic is ravaging some parts of the world. In some countries (Botswana, Lesotho) AIDS is causing a stalling of population growth in the next decade. In Southern Africa as a whole (the region with the highest incidence of HIV/AIDS) life expectancy has fallen from 62 years in 1990-1995 to 48 years in 2000-2005, and will fall another five years over the next decade. But AIDS is not killing nearly as many people as malaria, malnutrition, pneumonia and other diseases. In particular, diminishing child mortality is still a necessary goal for large parts of Africa, and Sub-Saharan Africa in particular has a long way to go before it "replaces funerals for the young with funerals for the old"[19] (173 children out of 1,000 will not live to see their fifth birthday)[20]. And in some parts of Africa, as Mary Robinson puts it, "young girls are almost becoming an extinct species"[21].

[19] An expression used by Prof Hans Rosling, Karolinska Institute.
[20] Data source: United Nations, World Population Prospects, The 2004 Revision (published in February 2005)
[21] Said by Mary Robinson at the Tällberg Forum 2005.

In China, the centrally declared one-child-per-family policy has created a disturbing demographic imbalance: It has resulted in a vast shortage of women. The estimates range from a low of 50 million to a high of 125 million. Boys were preferred to girls, who were killed, hidden or for whom the parents chose abortion. There are no reliable statistics on these vanished girls. This has created long-lasting social traumas of many sorts in China. Due to these very brutal family planning policies, China is joining Europe in population ageing – and perhaps decline. This also means that India will overtake China as the most populous country in the world.

Also, in another significant event, the world's urban population will this year or next surpass the rural population for the first time in history. By 2050 more than 65 percent of the world's population will be urbanized, and the megalopolises will continue to grow.

Closer to Sweden, there are momentous demographic shifts occurring, not least in Russia. The population is shrinking quite rapidly (almost one million per year), the number of births has fallen by 40 percent between 1989 and 2001 and the life expectancy of males has fallen by five years (from almost 64.2 in 1989 to 58.6 in 2001[22]). The HIV/AIDS epidemic in Russia (and the former Soviet Union) is likely to accentuate these declines. This will lead to a significant decline of the Russian labor force's size and quality.

Finally, there are a number of important demographic shifts inside Sweden. Most important among these is the ageing trend. We have and will continue to have one of the world's oldest populations, with over 17 percent of the population aged 65 or over. Only Japan (19 percent), Germany (18.6 percent) and Italy (18.2 percent) have a larger share of old people. This will have profound effects on the labor market, on competitiveness and on the future of welfare provision.

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[22] The source for demographic data on Russia is State Committee on Statistics of the Russian Federation

In addition to ecology and people, we have identified eight other trends that must be monitored and integrated in our learning about future economic, social and business conditions. These additional factors are:

3. **<u>The continued (macro) increase of the living standards of the world's population (on average 3 percent per year)</u>**

Of the world population, about three billion live under the poverty limit. Of these, about one million live in abject poverty. These billions stand outside the globally operating market economy, and represent the most under-utilized resource and the greatest potential market.

Figure 4: Share of the world´s population participating in the global economy

Year	*Share of world population*	*Total world GDP*
1900	10% (or 150m people)	$1 103 bln
1950	25% (or 500m people)	$4 082 bln
2000	50% (or 3 billion people)	$41 017 bln
2050	75% (or 7 billion people)	?

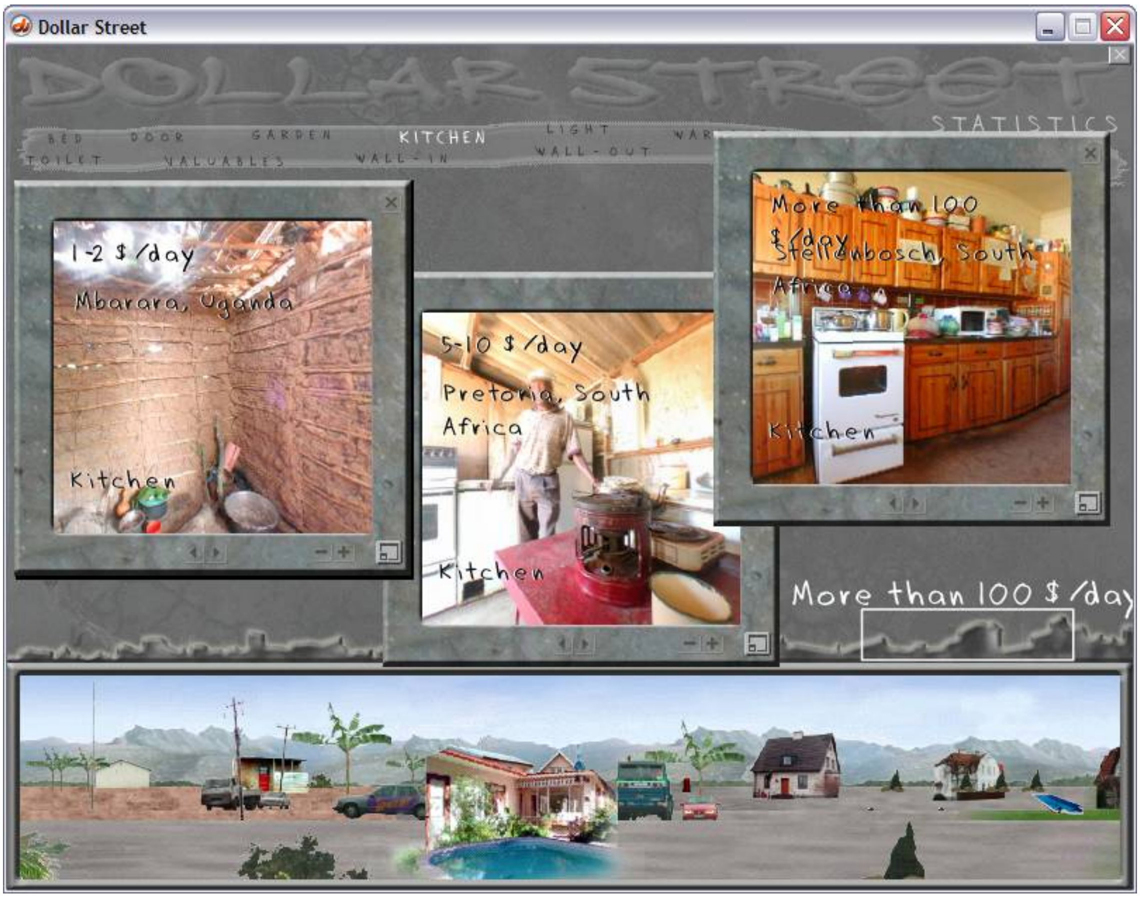
Data from World Bank

All markets began poor, Sweden as well. Sweden has pushed itself up from poverty to one of the world's wealthiest countries, through entrepreneurship, ingenuity and innovation, social order, functioning infrastructure (including financial systems), trade and commerce, law and order, political stability – and a lot of disciplined work. Simply put, these are the recipes for development, not only in Sweden but in the virtuous circle of market developments. And the role of consumption and consumers cannot be underestimated.

A useful metaphor that has been developed by Professor Hans Rosling from The Karolinska Institute is that of the **Dollar Street**. Imagine that there was a street that ran all the way from the poorest rural areas of Uganda (where people live on $1 - $2 per day) all the way through to rich suburbs in Stellenbosch, South Africa (with incomes of more than $100 per day), dozens of houses and living conditions can be imagined. However, all the houses along this fictitious street have doors, beds, toilets, kitchens, etc. Living conditions differ, but the needs are the same. And where there is a need, there is (or could be) a market.

Figure 5: The “Dollar Street”

The kitchens in three African houses (in rural Uganda, outside Pretoria and in Stellenbosch, South Africa) showing the living conditions of people living on $1, $10 and $100 per day



Source: www.gapminder.org

The poor are not poor out of wastefulness. They survive because they are good at managing scarce resources and through various methods surviving under harsh living conditions. The poor are also poor because they are underserved with products and services that suit their contexts, cultures and living conditions. In that way, they can also be viewed as consumers without the supply that could trigger their growth out of poverty. Ten years ago, we called this vision 3B2M “Three billion to the market economy”.

What can be found on the Swedish market would not have suited the poor Sweden of 100 years ago. Today’s supply of financial services, energy solutions or refrigerators does not work in an Indian village, in Lesotho or Latin America. And what is worse, the poor tend to pay more in relative terms than others for credit, for clothes, for housing, for fuel or even for food.

However, positive developments are happening, for instance through micro-credits and microbusinesses. There are signs that more and more players are seeing the opportunities provided by “The fortune at the bottom of the pyramid – eradicating poverty through profits”[23].

The fight against corruption and efforts to introduce the rule of law and make it applicable to poor people develops the economy and the markets. This in turn creates growth.

Developing and integrating the poor into the market economy is by far the greatest potential for the world economy – and for Swedish business. This will require new competencies in existing businesses, but will also open up for new business development not least in services (such as healthcare, education, governance, finance or environmental technology). The urbanization of the poor world will require massive investments in all kinds of infrastructures and social systems.

But in the short-term (and this has already begun) the rise of the middle classes in India and China provide Swedish business with a fantastic market. For instance, the emerging “consuming class” in India encompasses about 50 million households[24]. The need to adapt products, services, customer interfaces and business solutions is great, but the rewards are even greater. An executive at HSBC Bank in Mumbai says “it’s a big step to move from Mumbai into a village in rural India. A standard business model would not be profitable there”.[25]

More fundamentally, the two most basic factors of improving standards of living – getting 2-3 billion people out of poverty and grow markets in numbers and in value –are the spread of health and education to enable the creation of livelihoods. Nothing will improve and stabilize market conditions more than these.

There will be no lack of markets whatsoever in the future. And Sweden will need to find outside markets to satisfy its need for future growth.

[23] To refer to the title of C.K. Prahalad’s latest book, published in 2004 and in which he states: “The 18 largest emerging countries have 680 million households with an annual income of about $6,000 or less per household. Those numbers translate into a huge, untapped market of approximately $1.7 billion—waiting to be recognized and served.

[24] “In India, thinking big by thinking small” by Anand Giridharadas, International Herald Tribune, 1 October 2005

[25] Nicholas Winsor, head of personal financial services for India, HSBC Banking, quoted in International Herald Tribune, 2 October 2005.

4. **<u>The growing complexity, diversity and fragmentation of consumer markets and societies.</u>**

In the rich world in particular, the combination of rising standards of living, increasing individualism, an aging population, and proliferation of contacts (free trade, immigration, travel and a global media) have profoundly influenced consumers. Rising standards of living has lead to better health, and enabled "the many people" to realize some of their desires and individual dreams.

Individualism and better health have, at least in part, led to smaller families and indeed to redefinitions of what a family is. Freer trade, travel and the global media expansion have facilitated the diffusion of ideas and information. Changing gender roles and multiculturalism are creating new markets, but also new conflicts.

We see two trends in parallel: The first is the emergence of global markets, brands, tastes and fads where the same fashion, music, books, drinks, football teams or computer games can be marketed everywhere in the world through global media and television, franchise outlets, global role models. This is a standardization trend (with significant economies of scale).

The second trend is the emergence of more and more small and more specialized pockets and niches in the market. This we also see in fashion, books, interior design, food, travel, media or music. This has led to the creation of communities of interests for which the internet has played a crucial role. This is a diversification trend (creating economies of uniqueness).

Both these trends serve economic growth and offer great opportunities for the future, also for Sweden. Swedish examples feeding on the standardization trend are IKEA, H&M or Clas Ohlson. The second trend can be exemplified by the watchmaker Sjöö&Sandström, by outdoor equipment manufacturers Haglöfs, Fjällräven or Tierra, or by the Akvavit restaurants in New York.

As customers grow more experienced, sophisticated, competent, adaptive, informed and liquid, they will continue to push for innovation.

5. **<u>Growing financial imbalances</u>**

The global economy has since the mid 1990’s been managed under a regime of budgetary controls, low interest rates, low inflation and healthy average growth of 2 to 4 percent per year. The EU created its “Stability pact” in the mid 1990’s. Sweden joined in 1995 and could with the help of the pact's rules correct its severe economic imbalances and achieve its economic turnaround.

Over the last decade the US has been the economic locomotive of the World Economy. US consumption, not least of housing, has stimulated imports, not least from China and other Asian countries. This has resulted in the second largest trade deficit in its history. Simultaneously the US federal budget deficit is escalating due to tax cuts, budgetary overruns and the massive costs incurred by the War on Terror after 9/11, the war in Iraq, the series of disastrous hurricanes over the last years and an escalating oil/energy bill. The US federal budget deficit is likely to surpass 3 percent of GDP this year or next.

Many serious worries are continuously being voiced about the tenacity of the current global financial regime. Will the US be able to sustain the growing double-deficits? Will the dollar remain stable/strong? Can China continue to peg the RMB to the dollar despite its incredible competitiveness in manufacturing? Will the US – and even the UK/European – real estate markets prove to be a bubble about to burst with devastating effects on the banking system?

For the moment, China's trade surplus is somewhat offset by its escalating needs for importing energy and raw materials. China is pressuring the world prices of these markets upwards, with the support of other high growth/low natural resources nations like India, Taiwan and Japan (presently on economic revival). However, the Chinese trade surplus is partly funnelled back to the US to compensate for insufficient savings and for budgetary deficit. The US has at present outsourced its savings to other parts of the world. An economy that is savings-short and has very large current-account deficits is effectively living beyond its means.

Thus the US and China are financially interdependent, and this interdependence will intensify. This is part of the globalization process. The US – and the rest of the world – is thus dependent of the stability and solvency of the internal banking system of China. And the dominos are aligned…

Will the financial systems be robust and flexible enough to absorb the inevitable surprises of the future? We can list many chocks that can take the financial system off-balance: terror attacks, widespread social disorders (in China?), wars, environmental and natural disasters, foolish governments, oil/energy price hikes, reckless speculations and the extreme growth of financial and political short-termism, various supply bottlenecks… In such circumstances, the best defenses of any nation or company is to stay financially prepared for greater risks in the future than in the past. Do not push the margins, increase solvency and debt/equity ratios, hedge for the future. The best self-defense is – as always – real relative competitiveness, low cost long term investment, high degree of systems compatibility (with social cultural, market, ecological systems).

6. The rise of China and India in the world economy.

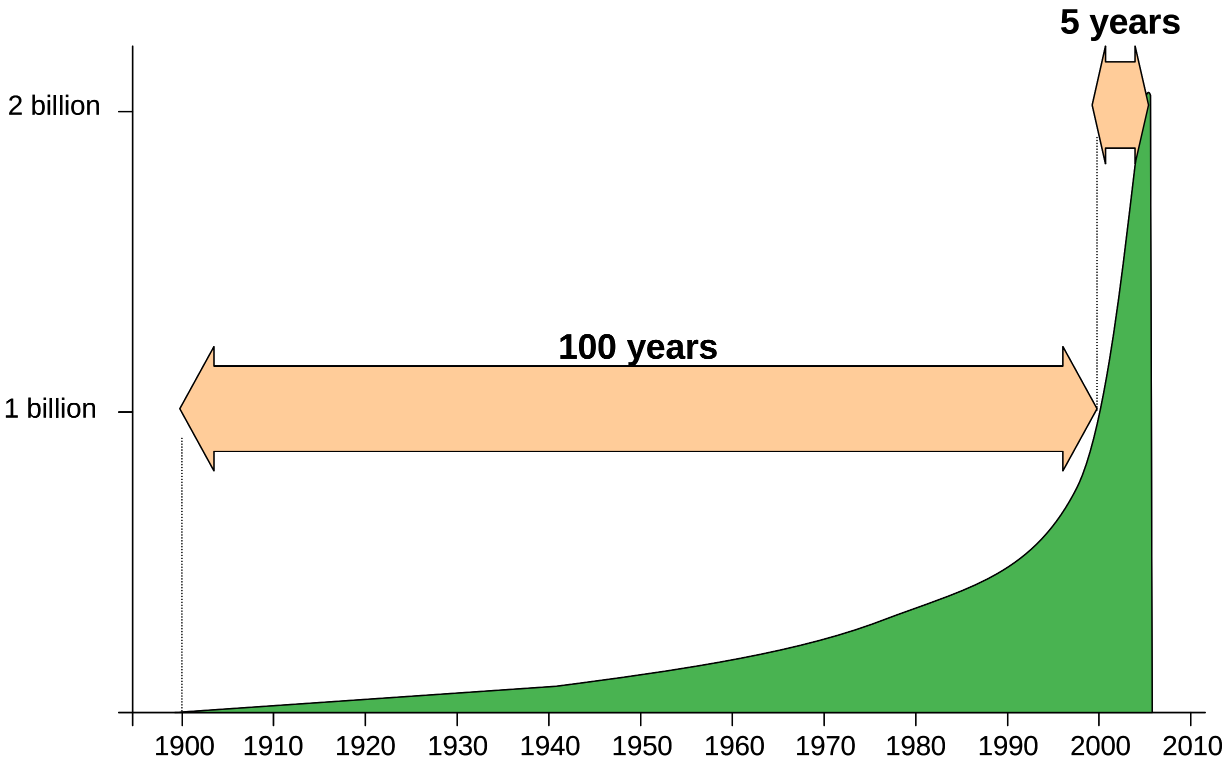
Business, asset managers and media are always looking for the next miracle growth and profit “machines” – where the next rally is. Past “miracles” have been Japan, the Asian Tigers, Silicon Valley and the dot.com phenomenon. They come and they pass. Today’s “pet miracle” is China and India. Of course, the rapid emergence of such large countries in the global economic system is an event of historic proportions. The ability to access production capacity at labor costs a fraction of those in the rich West has given global companies a tremendous boost.

But the China/India buzz has come, and it will pass. In the case of China, it must be remembered that it is a miracle based on dictatorship and the systematic abuse of labor and human rights, and it will therefore not survive, unless the rest of the world yields and adapts to such a social political system. In the case of democratic India, it is still a country with a majority of the population light-years away from the globalized market economy.

7. Technological change, breakthroughs in ICT, biotech, genomics, nanotechnology and their impact on productivity and business concepts.

The technological breakthroughs and their rapid spread are made possible through massive investments. The innovative processes have a near exponential power. Let us not forget that the transistor was invented just over 50 years ago. Mainframe computers were commercialized in the 1960’s, personal computers in the 1980’s. The Internet and mobile telephony in the mid-1990s.

Figure 6: Telephony: 100 years to reach one billion users, but the second billion came in five years



Source: Data from ITU

Within a few years, "quantum computing" will have its breakthrough bringing with it radical cost reductions for data processing and exchange. In parallel, but feeding on the IT-revolution, we are seeing a very rapid development in the field of biotechnology and genomics, paving the way for radical changes in food, food production, pharmaceuticals and therapy. It can also makes it possible to use nature itself as inspiration (biomimicry[26]) and producer of goods needed by mankind, such as fibers, energy or materials. Nanotechnology also carries the hopes of enabling the creation of materials, machines or robots at a molecular level.

Hopefully, the combination of different technologies can increase the effectiveness and efficiency of materials, energy and reduce cost. The new technologies (especially in ITC) also enable an even tighter integration of subsystems of production, data processing or logistics. Systems management will become robotized, and the systems become more cybernetic, adaptive and intelligent.

Currently, the strategic focus of business – often supported by national governments – is on innovation rather than cost-cutting and structural change. And, as Schumpeter stated, "we will simply define innovation as the setting-up of a new production function"

[26] See for instance the work of Janine Benyus, www.biomimicry.org.

More and more industrial renewal is pushed, both by the new opportunities that science empties upon us, but also by the growing realization that we have to resolve the environment/climate/energy equation.

8. <u>The weakening of multilateralism and the rise of neo-nationalism in international relations that are increasingly conflict-based</u>

Of very specific importance to Sweden's future is also the evolution of the European Union. In 2005 the constitutional process stalled, in large part due to the fact that the political success story of the EU has not been matched by its economic success (especially on the labor market). 20 million are jobless, 93 million are inactive out of a population of close to 500 million, the world's third largest market place

The process of European integration has eliminated the risk of large-scale war in Europe. East and West Europe are united but presently the two economically and politically key nations Germany and France, are also "the sick men" of Europe. Europe is nowhere the growth rates of the USA, let alone China and India. Even politically, there are disputes ahead with regard to institutional reform (especially the need to reform the Common Agricultural Policy and regional aid) and further enlargement and the question of Turkey's possible EU-membership.

Nationalism is on the rise and might jeopardize this the most successful constitutional innovation of the post-war period. The sociologists Anthony Giddens and Ulrich Beck observed recently that "The paradox is that, in the contemporary world, nationalistic or isolationistic thinking can be the worst enemy of the nation and its interests. The EU is an area where formal sovereignty can be exchanged to real power, national cultures can be nurtured and economic success improved. The EU is better placed to advance national interests than nations could possibly be by acting alone in commerce, immigration, law and order, the environment defenses and may other areas". And they continue: "Europe simply must gear up for change. But along with reform we must preserve and indeed deepen our concern with social justice… Some countries have been remarkably successful in combining economic growth with high levels of social protection and equality - especially the Nordic countries. Let us see what the rest of Europe can learn from them, as well as from other countries from around the world."[27]

Nor has the UN been strengthened in 2005 as a mechanism for multilateral problem-solving. The much heralded leader-summit at the 60th anniversary of the organization did not pass the sweeping reforms that are needed to adapt the UN system to the world of the 21st century. The United States opposed the reforms of the Security

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[27] "Nationalism has now become the enemy of Europe's nations"

Council, new disarmament agreements and more concerted actions in such areas as energy, environment and health. The UN has not been given wider mandates to act proactively in cases of ethnic cleansing, genocide or environmental catastrophes. The UN remains for the foreseeable future an organization that is by design crippled by its "owners", the member states. This is however not to say that the UN does not play a very significant role in many fields, such as development, humanitarian relief, the overseeing of nuclear power, in political mediation and in security. But the UN is not at present on its way to becoming the trusted vehicle for managing the "world order". Some of the UN's major weaknesses are its lack of sanction powers, and military and financial resources.

The World Trade Organization is in 2005 about to finalize the Doha round. The major issue at stake is whether the new trade regime will result in a "development-friendly" trade agreement or not. Will there be a lowering of the US and European agricultural subsidies? An agreement does not seem in sight, and if the confrontation leads to failure, it will create very serious disillusionment in the developing world about the real intentions of the rich world.

A positive multilateral development is the evolving formula for writing off the external debt of some 30 of the poorest countries in Africa. This initiative from the United Kingdom was approved at the G8 meeting in July 2005 and followed up at the IMF-World Bank meeting two months later.

The G8 (the richest of the richest, the most powerful among the powerful) has emerged as the closest organ we have to a "world government", at least for the time being. But it has no constitution and no democratic controls, and not much popular support. Its authority will therefore have limited reach.

The globalizing world is for a long time to come clearly finding itself without effective political systems of governance at the global level.

Robert Cooper has in his book, "The Breaking of Nations", offered an interesting scenario for the evolution of multilateralism and international relations. His thesis is that the way business and value creation is now being organized will make conventional wars non-constructive because of the intricate interdependences that globalization is putting into place. Future wars – happen as they may – will be self-destructive. That is also true for large scale terrorism and also for counter-wars on terrorism. Obviously, the present "war on terror" has so far not eradicated terrorism. On the contrary; terrorism has increased, not least inside Iraq itself. Iraq is looming on the verge of civil war amongst three different ethnic groups and religious sects of Islam, and democracy is still a distant prospect. Francis Fukuyama describes the predicaments of nation-building in the following way: “The Iraq war seems to have been planned on the assumption that democracy was a kind of default condition to which societies reverted once tyrants were removed, rather than a collection of complex institutions that needed to be painstakingly built over years. The [US] administration grossly underestimated the costs and capabilities required to stabilise Iraq.”[28] Therefore, Iraq is an important lesson for the future. Control over oil is the dominant factor linking the Iraqi situation with the process of globalization as it does with the whole Mid East region. The controversy over oil will not go away.

Robert Cooper’s thesis is that nations in the future will rather be connected by common interests than by balances of power. Shared values and shared interests will be become more powerful than adversarial interests. If this would happen, it would signify a real change, a transformation into a new order. The business community should be the leading driving force towards this future. Business has always been international, since trade transcends by definition boarders. Trade is the vehicle for playing out competitive advantages.

The continued integration of economic infrastructure like production, distribution, transportation as well as financial markets, labor markets and of course markets for goods and services will support the transition to a world order based on shared interests, rather than historically defined conflicts of power. Israel’s Deputy Prime Minister Simon Peres put it bluntly at a recent conference on Gaza and peace in the Middle East. He said that armies belong to the past, they will be substituted by business and its investment in the future. There is no way the conflicts in Gaza and the West Bank can be resolved by military force. They can only be solved by investment, jobs and the hope for a brighter future that comes with livelihoods, economic growth and increasing standard of living. If there are no jobs there is no hope for the future. With no hope for the future there is no security for either Israel or Gaza.

The same logic can be applied to conflicts everywhere, be they between or within countries. The logical conclusion of this reasoning, say leaders like Shimon Peres, Bill Clinton, King Abdullah of Jordanian or Tony Blair: “we need to privatize peace”.

In conclusion, we see no trends or even trickles towards the formation of a formal global governance. This is simply not in the making. But we might be seeing the evolution of an informal governance growing out of a mixture of agreements and relationships that can be multilateral, national, or based in business or civil society.

[28] Francis Fukuyama, “The Bush Doctrine before and after”, Financial Times, 10 October 2005.

This increasing mass of relationships will probably at some point reach a tipping point where the common interest of stability is so manifestly strong that there will be a common interest to eradicate any threat of war or conflict.

Let us say that the world in 15 years experience a degree of economic integration and globalization that is three to four times that of today. Let us assume that the world has reached a state of "deep globalization". On its way to this increased intensity of integration the world economy has grown by four percent and now includes another 1,5 billion people that has left their state of poverty. Such a world could not allow for "killer" imbalances in trade or budgets, like the ones the US economy shows today. The WTO, the IMF, the EU, the G8, the Nepad, the Asean, the Latin America free trade area etc will have devised mechanisms that support the stability of financial markets, trade and budgetary balances, balances of payments, balances of labor markets, etc. Such a world would be managed by a "Global Stability Pact" combined with a "Global Security Regime" that have become a necessity as "deep globalization" was realized. The Global Stability Pact would require that the very richest nations underwrite an insurance system that can both proactively and reactivity manage structural crises as they occur: like a Tsunami, a Darfur, a Katrina, a Stan, a drought in Niger, a pandemic avian flu, a famine in Malawi, the rebuilding of Gaza, the reforming of Zimbabwe.

9. **<u>The dynamics of globalization, the developments of global systems for production and logistics</u>**

AND

10. **<u>The growing power and enhanced role of global corporations.</u>**

The process of globalization makes us by definition more deeply interconnected. Globalization connects the Chinese economy with the Swedish: we create bonds of commerce that are – at least for the moment – favorable to both parties (this must at least be the assumption behind voluntary agreements).

Globalization is like an unconsciously entered marriage. Globalization is making us exchange vows of living together for better and for worse, in good times and bad. Thus globalization might be purely economic in its fundamental trigger but will as it deepens in intensity and volume also become part of our social, cultural, religious and spiritual lives. Will this multitude of cross-country "marriages" succeed? We don't know.

Very few companies are, in the true sense of the word, global, which is to say that they do not belong anywhere and have geographically widespread ownership. Multinational companies can operate in a hundred or more countries, but still have distinctive national/ethnic roots. The structures and designs of their value chains can continuously evolve, as new, often short-term profitable opportunities arise. In these processes companies are aided by specialist companies like Flextronics. In a way, Swedish companies – among others – outsource certain types of production from Sweden to "Flextronicsland" (or other manufacturing specialists) rather than to some distinct country. In these hyper-effective manufacturing systems, production is moved constantly from one place to the next, where the best quality/price ratio is on offer: Ireland, Poland, Slovenia, Latvia, the Ukraine, Indonesia, Taiwan and – above all – China. China's GDP consists today of 55 percent industrial production. In Sweden the percentage is down to 28 percent (most of it in the manufacturing sector). Sweden's manufacturing ratio has never ever been as high as that of China today.

But also research, design, product and software development, administration and other company processes seek out places where companies find the best profitability, in a process called Placehunting (and which is not solely governed by market forces, since grants, subsidies and a variety of state supports play an important role in choice of location). The different tasks in the value chains occur in many places, integrated through information technology and its platforms. More and more activities will take place solely in the digital domains, in the "placeless" cyberspace.

A few companies have such strong business models and business concepts, financial positions, and other competences that they can control "the whole" of their business and thereby also be very clear about their identity, brand and roots, even though production and sales takes place globally. Prime examples are IKEA and H&M. But many companies cannot manage to develop such defendable positions. Some are bought and structured into others' business systems. Others succeed in becoming specialized providers of niche products, components and services to other industrial and commercial systems owned /controlled by others, Swedish or foreign.

With globalization the roles of business will be expanding. Its legitimacy can no longer only be based on narrow economic performances. Business needs a constituency wider than "only" investors, in order to be accepted across cultures, nations, ethnicities, and among the increasingly numbers of local and global civic society stakeholders. By globalizing its operations, business complexity not only increases the complexity of its own operations, but also of its relations to the increasing multitude of surrounding systems that it is dynamically interrelating with. This new business world in the making is demanding new competencies, new strategies and new level of sophistication from the business leadership. This is only good news.

But if business stays "provincial" and remains embedded in simplistic types of business models (such as "the business of business is business and creating value for shareholders"), it will lose confidence and subsequently manoeuvrability.

When Clas Ohlson mismanages its responsibility for workplaces in China, asset managers in Sweden sell out their holdings in the company, making front page headlines. Some ten years back the international community started to seriously mind how business dealt with human rights, the environment, worker relations and ethics. The UN developed its “Global Compact”[29]. Over 2 000 globally operating corporations subscribe to this soft code. The Global Compact has led to an important rapprochement between the business community and the development community. A large number of codes have emerged that promote “corporate social responsibility”. This broader stakeholder thinking is now affecting a growing number of actors in the market place, not least the consumers.

This new wave of thinking is also challenging products and services offered to the market, for example automobiles and fuels. These are two conservatives industries with billions of dollars invested in the “old logic”. They have not proven able or even willing to renew themselves and adapt proactively to new ecological and customer realities. It is important to consider that the downplaying of ecological concerns and oil shortages are supported by those having a stake in a retained status quo of these industries. We must not forget how, for example, the tobacco industry has used scientists, the lobby communities, the political community to fight off any change in regulation and legislation for many decades. These and many other conflicts between the interest of corporations and the interest of the wider society are well engrained in the public minds. Also the corporate abuses in remunerations systems have deeply upset the public’s sense of morality.

But overall, we must conclude that corporate sensitivity to the wider society is increasing and moving in the right direction. Business learns as it develops into and with a more complex world. The most important strategic problem for many large global corporations is to integrate co-workers from all over the world and of many religions behind the chosen corporate values, visions and strategies. The main problem is not technological, it is anthropological[30].

Also, the leaders of such corporations as well as thought leaders in all parts of the world emphasize that “we are only just beginning”[31] to become really skilful in understanding the prerequisite for our business beyond “our” market in its narrower sense. New levels of understanding of systems complexities must be added as the roles of the corporations and the business risks expand.

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[29] The ”Global Compact ” has its roots in discussions at the Tällberg Workshops, organized by the Tällberg Foundation.
[30] Observed by Nick Butler, Senior Vice President of BP.
[31] Said by Peter Schwartz, founder and chairman of Global Business Network.

Business increasingly plays an important role in international governance contexts, as it did in the G8 context: Tony Blair had a formal G8 Business Round Table to prepare the G8 meeting. The European energy industry lobbied strongly with the British Prime Minister prior to the meeting at Gleneagles on their concerns over climate change: “more political action is needed to pool science and technology resources”. Also business voiced its concerns over the low rate of investments in Africa and the need for a revision of third world debt. This was a good show of business taking a wider responsibility. Business and politics have always been and will always be intertwined in both constructive and abusive ways.

The future direction seems clear. The role (and power) of business will increase on the global scene as long as nations are unwilling or unable to renew their multilateral institutions and processes. Global business interests will thus increasingly contest and challenge national interest and national power.

These are the Ten Top Trends (TTT:s) for us to continuously follow. All the patches and strokes on this canvas of the wider business environment will deeply impact Swedish business. They have to be understood as the dynamic parts of the complex, adaptive system that they constitute. Moreover, the interaction and dynamics of this complex adaptive system within which Sweden and Swedish business exists must be perceived and increasingly understood.

<u>To know that one does not know is the best starting point for learning. Learning is finding out what one does not know that has relevance for the performance of one’s business.</u>

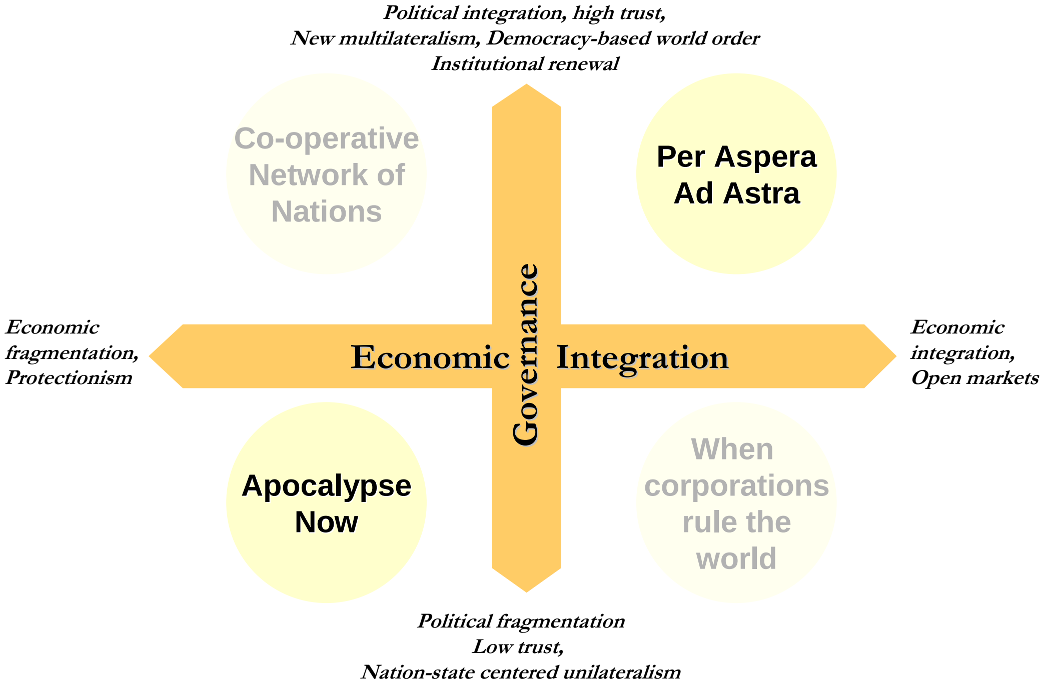
The evolution of all the Ten Top Trends will offer us surprises. Dramatic changes will continue to occur, probably with an increased frequency and magnitude as the global systems become more and more interdependent and technologically complex. As complexity rises, so do the number of possible failures and thus the level of risks – but also the attractive opportunities.

Chapter 4

The evolution of the global: two scenarios and a "Perfect Storm"

The "Ten Top Trends" described in the previous chapter can be used as a basis to devise some scenarios for global developments: what is going to happen at the global level? (These are not to be confused with the scenarios for Swedish business which will be elaborated in the next chapter). To do so, let us look at two "scenario dimensions". By crossing these two dimensions we obtain four possible outcomes in the four quadrants.

Figure 7: Global scenarios



The first (the North-South dimension in the figure above) is the question of whether the world is moving towards a greater degree of political integration, multilateralism and high trust, or towards fragmentation in international relations, unilateralism and low trust. We can call this the Governance dimension. The second dimension (East-West) looks at the ways in which economies and business sectors interact: are we moving towards even more open markets, economic integration and a level playing field for business, or are we moving towards economic conflicts, fragmentation and protectionism. This is the Economic Integration dimension.

It is not difficult to delineate and accumulate developments of the “Ten Top Trends” and be left with a safe bet that the world will end up in any one of the scenarios. Every scenario position offers a different set of strategic conditions. Sweden can survive in anyone of them, prosper in some. This is a matter of adaptability/learning: staying prepared for the inevitable surprises.

To simplify, we will only look at two possible outcomes. The first is the positive success-story, which we call “Per Aspera ad Astra” (Towards the stars through trials). The other scenario, we call “Apocalypse Now”, outlines the opposite future where the world is retreating into its parts and resorts to tribalism and nationalism. The vision of a common globally shared future brakes down. Neo-nationalism and isolationism might happen. Increased contacts and cooperation inside the network of nations might happen, a kind of G8 regime expanded to include most countries. A brutalized world derived out of the sole application of strict economic/financial incentives/criteria might happen. Or a world combining the democratic evolution of equality, social justice and human security with continued economic innovation and integration.

Both these futures can be easily discerned in the world of today. For a vast majority of the world, Sweden is living in the “Per Aspera ad Astra” scenario, and represents the ultimate vision of social, economic and political success. Sweden embodies the vision of a secure and humane society. The “Apocalypse Now” scenario is today played out in places like the slums of Calcutta, Flatlands of Cape Town, Eastern Congo, Honduras, and in Haiti and recently across the Gulf in New Orleans, or in the streets of Baghdad.

Let us look at the two possible outcomes.

The Apocalypse-Now Scenario

- A South-West Future – Tribalism and Anarchy – could look like this.
- Population increase with 2 billion in 25 years. The ambition to reduce poverty fails. Trade remains protectionist.
- The environmental changes affect human life dramatically. Global warming increases average air temperature with two agrees. The rise of sea levels dislocates hundreds of millions of people. The Gulf Stream changes its course to a more southerly bend. Weather becomes more violent; hotter in some places, colder in others. Clean water becomes scarce for billions.

Rationing is implemented in many countries. Deforestation and desertification have taken massive proportions.

- Energy prices have increased 10-fold. Oil prices are at $180/bbl. Renewables have failed. Nuclear power is restricted because of the 2012 Russian catastrophe that killed 70,000 people. The Western Lifestyle is undermined.
- Religions and political value systems bring severe conflicts over what principles and norms should govern and have the power over globalized, interdependent markets. Those who have the power over information, communication also have power and control over public opinion, politics and learning. Fundamentalism grows.
- The hegemonic appetite of the US increases “to defend the non-negotiable American way of life”. This has made war a permanent state of affairs in the Middle-East (including Saudi Arabia) and in Central Asia. Terrorism has grown, become better organized and also tactically and financially aligned world-wide with organized crime and corruption. War lords are becoming a phenomenon in Western countries as well.
- The UN has failed with the relief efforts in Africa and South Asia and the potential UN reform that never took place turned the world organization into a lame duck.
- The dollar continues to fall to SEK 4.50. Combined with increasing trade imbalances and federal budget deficit (worsened by war efforts), this leads to a US triggered international economic recession in 2006/07.
- China’s formidable growth (3 times to 2025) creates a new economic super-power. India grows two times. Together, they create “The Asian Economic Tsunami” that rolls over the OECD economies and undercuts their welfare systems and competitiveness. The balance of power shifts and creates new tensions, protectionism and trends towards fragmentation championed both by anti-globalization movements and financial/political establishments. The EU did not materialize as a strong force. The Euro became a weak and instable currency.
- The power of the global corporation has grown in the wake of increasing weakness of global organizations and nation states. Their independence of national borders increase as restrictions lessen. International rules and oversight have been watered down. Corporations control the financial markets and the media. Markets become freer than ever in history.
- International crime has grown rapidly in scope, competence and volume. The base of weapons trading, prostitution, trafficking, drugs and gaming is

broadened to tourism, entertainment, media finance… Profits are laundered and invested heavily in white sectors such as real estate, retail and logistics. Corruption grows like a cancer out of the cultures of China, Russia, the Philippines, Africa, Latin America...

- A number of new viruses and pandemics spread fast, killing 10, 40, maybe 250 million people – each. The world has weak defenses and responses to cope with the combined onslaught of environmental disasters, corruption, demographic migration, unemployment, energy crises and urbanization.
- Technology develops a whirlwind of new opportunities for improvements – and threats. Systems become so complex that the public and politics loose insight in how they are controlled. Yet, these systems control increasingly important aspects of people's lives. Gene technology has a deep impact on humans, animals, medicines and plants. Control is in the hand of global corporations.

In many aspects, this world of Apocalypse Now does exist today in places such as Haiti, Afghanistan, in the slums of the Calculttas and Mumbais, in San Salvador, Congo, the Ivory Coast, Sierra Leone, Iraq, Chechnya, Gaza and the West Bank, Darfur and many other places. This future is already there to be experienced.

The question is if our lives in the future will become more like the lives of the orphans of Haiti, the aid-struck villages of Botswana, and the slums of Calcutta or if our lives will be more like the lives of the children in Stockholm, White Plains or Shanghai.

For the orphans in Haiti the Apocalypse is now not in the future: famine, looting, hurricanes, corruption, rioting, prostitution and poverty is part of everyday life: A living nightmare. There are many such places on earth afflicted by trade, others' protectionism, climate change, corruption and many of the other macro trends that were outlined above. The bad fallout of these trends is abstractions to us but realities to them.

The world has become a better place to many more people over the last 50 years. Better health and education has moved economic growth and standards of living to an increasing number of people. As our saying goes: they are moving up the "dollar street". But inequalities are also on the march. The richer get richer and the poorer get poorer in absolute and in relative terms. The gap has widened.

The processes of globalization are far from perfect in their environmental, wealth allocation, demographic or power distribution effects. Therefore "globalization" will continue to be contested and protested against. Even wars will be triggered – initiated by the rich (in Iraq) or the poor (in Congo). Alternative methods will be sought.

The Per Aspera ad Astra Scenario

The world could also fall into a steady-as-she-goes process of continued 3-4 percent growth over many, many years to come, where foresight, generosity and benevolence mark the politics of global governance, conflict prevention and resolution. This scenario assumes a tide of technology and political inventions that can make us manage the Ten Top Trends very successfully.

The Per Aspera ad Astra scenario assumes that the world becomes a "fast learner". In that sense it is evolutionary/adaptive. The world and the big corporations are governed by systems thinking and interaction: "your problem is my problem – and vice versa". The world is becoming more "interactive" than "reactive". The world exercises more of solidarity (in one's own self-interest) than personal, national or ethnic egoism.

- The most important break-troughs were the institutional reforms that lead to democracy-based global governance of critical global systems like security, finance, justice, trade, communication, transportation, poverty eradication, disease control, education and of course global energy/environmental action.
- Over 10 years, the UN developed a new constitution which substituted G8, G88, WEF, WSF and other groups. Regional constitutions were continued to be developed like the EU, NAFTA, NEPAD, the African Union etc. NATO became a world-wide security system (GST) as a part of the UN under the jurisdiction of the Security Council.
- All UN conventions and the Declaration of Human Rights were integrated into a Global Values and Rights Treaty (GVRT) that formed the platform for becoming accepted as a member of the UN. The WTO was transformed into a Global Trade Order (GTO). Environment, finance etc. got new treaties and agencies that form part of the new UN and that are not dominated by any one nation-state.
- The 173 global treaties negotiated between 2010 and 2022 came to form the basis for a new world order of sustainable interdependence that finally produced an organization that succeeded the UN on October 24th 2025 with headquarters in Hong Kong.
- This development induced a spirit of hope of growth and stability with the consumers, investors, markets and research communities. The wheels began to turn at a steady growth rate of 3-4 percent per annum.

- Three billion people entered the market economy and the migration “up the dollar street” increased buying power and demand. The world experienced – with minor recessions – a long boom of another 50 years.
- The expansion of education-based democracy established a broader support for the rule of law. Education proved to be the best defense against terrorism, organized crime, corruption and tribalism.
- Investments into global health and education systems were massive as part of all richer countries’ allocation policies. The pay-back came in form of expanding export markets.
- The new Global Consensus also helped organize policies and actions to combat the approaching man-induced environmental disasters – air, water, land, the living species. A holistic approach was generally accepted which greatly influence policies and technology development.
- Also, mankind developed – as result of the 2005 Asian Tsunami disaster – new systems, preparedness, funds and resources for coming humanitarian/ecological crises. Part of the increase in standards of living was reserved for these “inevitable surprises”.
- Also the global issue of safe energy procurement became an area of global political consensus. This triggered vast investments in research and development – and in new energy systems to support the economic growth in China and India.
- For decades, China and India became very competitive markets through the combination of low labor costs and high education/technology levels. This became known as the “Asian Factor”. Many hundreds of millions entered new labor markets and triggered vast internal waves of migration. Also, Europeans moved to Asia when unemployment rose and the promises of the old welfare states could not be met. Their future did not materialize as envisioned.
- The world’s population growth continued to slow down. It only grew from 6.3 billion to 7.5 billion in 2025. All growth in the South, some in the East, none in the West and North. The most important migration was people moving from being poor to reaching buying power. Parts of migrations were also physical: from the country-side to urban areas. In 2050, more than 60 percent of the world’s population lives in urban centers. People will continue to move from poor to richer areas, to jobs and opportunities, from wastelands to more fertile grounds, from persecution to safety, from disaster areas and war zones.
- The world developed a robust and transparent “same rules for all” globally working financial market place (compare EU’s stability pact) for reducing the probabilities of local/national financial mismanagement, bubbles and violent

swings in exchange rates. Financial crises strike at intervals but the global system is better and better managed.

- The US superpower structure based on its economy, technology, agglomeration of know-how and capital, military power (>50 percent of global military spending) and clear sense of national objectives and interests. The US superpower position of 2005 was changed, challenged and balanced in 2025 by China/India and the EU. The balance of power continues to shift and move like tectonic plates. The fall-out of a war and clash of interests between the US and China, the US and the greater Islamic world or the US and the EU or Russia on an imagined Richter Scale would be horrendous. Adaptation is the only possible game plan. Europe will not become subservient to the US definitions of security only based on US interests. Neither will Russia. China still did not in 2005 understand its future strengths. Medium and smaller states will either become more dependent, but favours a new global security system under a new UN. They are likely to join regional structures that represent their interests in the wider global process.

This is the “nice” future, which also exists today for many nations and citizens in areas such as Scandinavia, most of the EU, the US and in parts of some developing nations. We already know what a decent living in democracies looks like with high standards of living and security.

There should be no controversy over the fact that this last scenario would best serve the interests of Sweden’s business sector, capital, labor and civil society. This scenario would create the most stable growth environment, would be able to contain and absorb risks and be most favorable to shareholder’s longer term interests.

A possible trigger towards “Apocalypse Now” “The Perfect Storm”

When atmospheric jet-streams collide and produce tremendous falls in pressures, this creates what is called the Perfect Storm. Such a storm occurred in 1991 over the North Atlantic, waves of 60 meters swept over the ocean, destroying everything in their path.

At the moment, in the jet-streams of globalization, the perfect conditions are falling into place for the Perfect Storm that will sweep over the societal model that has been built over 150 years. Over the past few decades, the danger has been creeping up on us. But we can no longer sit and wait and trust the process, and rest assured that someone else will take responsibility. If we don’t reorganize and become better at living together on earth, the storm can come faster than we think.

The dark clouds are mounting: peak oil, climate change, poverty, water shortages, diseases, lack of jobs, democratic deficit, fundamentalisms. No single country can solve the problems of the whole. The necessary transitions (e.g. to a new energy base) will not occur in an orderly fashion, nor will we avoid disruptions. In many areas, the market has not solved the problem.

What if all these dark clouds, all these low pressures, converge and break upon us simultaneously? The Perfect Storm is over us if national and special interests do not manage to get together in multilateral, multi-stakeholder processes that in content and format correspond to the systemic dependencies – under which we are all living.

As we have stated several times, the environment/energy/climate equation is especially worrying, and the issue of climate change in particular. The following analogy is worth noting: “On the one hand, you think, It’s the earth’s climate system, it’s big; it’s robust. And, indeed, it has to be somewhat robust or else it would be changing all the time. On the other hand, the climate record shows that it would be a mistake to assume that change, when it comes, will come slowly. [You can] liken the climate system to a rowboat: You can tip and then you’ll just go back. You can tip it and just go back. And then you tip it and you get to the other stable state, which is upside down.”[32]

Strong voices are also being heard outside the scientific community – among which there is near-unanimous consensus regarding the gravity of the situation. Once strong and eloquent voice is that of former US Vice-President Al Gore. In a recent speech, he said: “The warnings about global warming have been extremely clear for a long time. We are facing a global climate crisis. It is deepening. Winston Churchill said [referring to pre-war Europe], ‘The era of procrastination, of half measures, of soothing and baffling expedience of delays, is coming to a close. In its place we are entering a period of consequences.’ Churchill also said that he understood why there was a natural desire to deny the reality of the situation and to search for vain hope that it wasn't really as serious as some claimed it was. But he went on to say: ‘This only the first sip of a bitter cup.’ We are now entering our period of consequences.” [33]

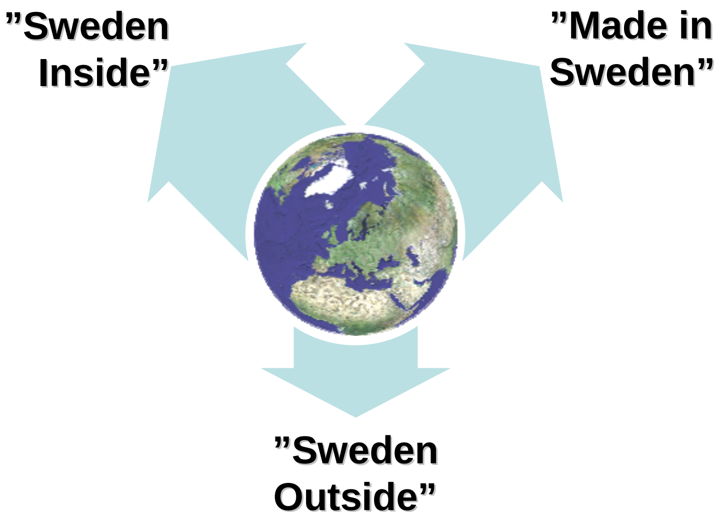
[32] Donald Perovich at the US Army’s Cold Region Research and Engineering Laboratory. Quoted in “The Climate of Man” by Elisabeth Kolbert, the New Yorker, May 2005.
[33] Al Gore’s speech to the Sierra Club, 9September 2005.

Chapter 5

Three scenarios for Swedish business

The previous chapters have been devoted to discussing what we believe is happening in the world and what is shaping the conditions under which the Swedish business sector operates. In this chapter, we will look at today through the lens of three scenarios for the future. They are scenarios describing the Swedish business sector in a long-term perspective – towards the 2020 horizon.

Figure 8: Three scenarios for Swedish business



A conclusion from the previous chapters is that Sweden needs to have its debate on globalization and national controls over key markets for our sustenance. (This delicate balance is a not least a question for the political process.) How much should be “Made in Sweden” and to what degree should what we do be merged as components and parts of globally integrated systems of value creation, “Sweden Inside”? Or is there a risk that Sweden simply misses the train – “Sweden Outside” – in which Sweden did not managed to get its act and actors together in the ruthless adaptation to the coming dramatic changes in the rules of the game.

There are two key questions for the scenarios. The first is whether on the one hand **the conditions for continued globalization remain or are strengthened**, or on the other whether **the obstacles to globalization become more rampant and significant**. More trust or mistrust in the globalizing process?

The <u>second</u> important question is whether Sweden succeeds in finding a role in the global value-creation system which is being reshaped through profound structural change, in order to create the wealth necessary to finance the Swedish welfare system and the (labor-intensive) personal service sector. In two of the scenarios, Sweden does succeed, but in very different ways. In the third, Sweden is left behind and dives into deep problems.

A word of caution: As in all scenario presentations, it is not a question of “being right” and hoping that one scenario or the other becomes reality. These scenarios are sketches of possible futures, they are not full-fledged, complete descriptions of the country or the economy. Working with scenarios is all about leaving the relative security of our assumptions, breaking the boundaries of traditional thinking and accepting uncertainty and unpredictability. Scenarios are not about forecasting or about finding the single most probable future state. Most likely, the future contains parts of several – or indeed all – scenarios. In addition to the large catalogue of experiences provided by real-life business situations of the past, scenarios add the experience provided by possible future situations. Scenarios labor with today’s issues but look at them from the viewpoint of different possible futures.

The main objective of scenarios is therefore to expand our thinking, to increase learning about strategic alternatives and thereby improve today’s decision-making. When confronted with the alternative and widely diverging descriptions of the future that these scenarios present, the reader can find new frames of reference that can be used to interpret changes in Sweden’s environment.

Scenario 1: Sweden Inside

THE SCENARIO IN A NUTSHELL:

In the **"Sweden Inside"** Scenario, Swedish business has specialized in a particular role in the value-creation systems of the world: that of architect, concept developer and central manager. Sweden has reinforced its position as a powerful and successful node in the global value-creation system. It is home to some of the world's most successful, modern and dynamic companies (or rather corporate systems) fashioned to thrive in the new world of business. The scenario came about through a continued, unabated globalization of the network economy and the production system. All in all, the country's economic and industrial achievements in the "Sweden Inside" scenario can be traced to Swedish companies' perennial ability – since the 19th century – to adapt to changes in the world around us.

The context for the scenario

For this scenario to develop, **globalization continues.** The express train of globalization, which began with industrialization and free trade in the 19th and early 20th century, had gathered tremendous momentum in the 1990s. The twin effect of widespread deregulation inside and between countries and a constant growth in the globalization-enabling technologies paved the way for this acceleration. But the rapid globalization of the turn of the millennium did not stop. Even though a growing number of people were talking of a "Runaway world" that was heading towards a hard landing because of an overstretched production system and the politicians' and regulators' increasingly desperate strive for control, the drive for ever-increased productivity proved them wrong. In many ways, it was only the beginning, and hyperglobalization carried on, not least when smaller companies also were able to profit directly.

Another important aspect in the scenario was the "blessing in disguise" provided by Sweden's and Western Europe's **demographic shifts** after the year 2000. In Sweden the group aged between 16 and 64 stopped growing between 2005 and 2020, while the population aged 65 and over grew by 500,000. On the labor market, demand adapted to supply.

The scenario presupposes the continued development and spread of **technology**. There is no doubting the role of connectivity in the spread of globalization in the 1990's, not least through the enormous investments in IT-infrastructure and in particular the hundreds of million of dollars invested in broadband connectivity, mobile telephony, undersea fiber optic cables, etc. These “bitpipes” were the backbone on which the global production system could grow.

Also important in the context around the “Sweden Inside” scenario is the fact that a sufficient level of **global governance** has been conserved. The “thin crust of trust” that is necessary at the international level is there, and has actually become thicker.

Finally, “Sweden Inside” arose in the context of the **network society**, with which the population increasingly felt in tune with. In hindsight, the generations born in the mid-20th century never really adapted to the economic and work life changes of the 1980’s and 1990’s, the shift from stability and hierarchies (as epitomized in the lifetime employment model of post-war corporations) to a work life characterized by fast-pace, projects and networks. Later generations, beginning with those born in the 1970’s and 1980’s, were used to the new employment models that now prevail. After many years of opposition, the unions had also come to adapt to this new reality. Their support for competence development and flexibility was important, as was their firm pro-globalization stance: “There is no alternative” was the theme of a union campaign in 2008.

In 2020, Sweden is in good shape. It is still considered one of the most competitive economies in Europe; the economy is consistently showing growth above the European average. Inactivity and unemployment has diminished, not so much through massive job creation, but rather by the non-replacement of the jobs lost through demographic shifts.

How did it come about?

The “Global labor arbitrage” that was so hotly debated in the early 2000’s, through which low-skill and low-wage jobs moved to wherever the conditions were best, continued. Together with continued gains in labor productivity through increased capital intensity (automation, robotics, etc), this accentuated the shift away from manufacturing in Sweden and other rich countries. Some manufacturing jobs moved to low-wage countries, others just disappeared because of productivity gains. In the international statistics, Sweden maintained a higher proportion of the labor force in the manufacturing industry compared to most other European countries, but these workers were not industrial, “blue-collar” workers.

This meant that Sweden once and for all left the industrial and manufacturing era, as companies left the era of vertical integration. The only exceptions were the raw-material based industries (steel and other metals, timber, pulp and paper) who still count for a large proportion of Sweden's industrial production but a tiny share of employment. Some industries tried for a long time to resist, but even they went the same way as large scale ship-building, mass production of textiles and other long-forgotten sectors from the middle of the 20th century. The last industry to abandon its large-scale production capacity in Sweden was the automotive industry: when Scania's factory in Södertälje closed in 2016, it was heralded as the definite end of an era. Scania as a company is alive and well, and is still a substantial private employer in Södertälje. Wheelius, the world's leading fleet management and vehicle finance company, has grown from Sweden, thanks to the merger of Scania Finance and Volvo Financial Services in 2008, and their acquisition in 2010 of GE Capital's operations in these fields.

The industrial shift away from manufacturing was accentuated by the way in which some large established companies migrated into concept development and system management, away from their earlier manufacturing base. The best example is Ericsson, who is now the world leader in telecoms management. They support many of the largest telecom operators all over the world, not so much by selling infrastructure but rather by taking care of their network operations completely, including hardware, software, development, service, billing and even providing network capacity on demand. The shift away from manufacturing (between 2000 and 2005) was very painful for the company, but the rewards from doing it promptly and fully have been extraordinary (Ericsson is Sweden's largest and most profitable company).

In a symbolic act, Ericsson invested half the proceeds of the sale of its share in handset manufacturer SonyEricsson (sold to Sony in 2007) into GESSDAM (pronounced Gee-sdam), the Global Ericsson School for Systems Design and Management. It moved into Ericsson's old Kista plant and quickly attracted the very best teachers, researchers and students from around the world. In just a few years, it became one of the most sought-after universities in Europe, and has proved to be a fertile recruiting ground for Swedish companies.

The main engines of globalization during the period 1995-2005 had been the large global companies. They had also been at the forefront of the wave of internationalization of earlier decades, characterized by the internationalization out of national markets (but with mostly national capital, national values, national interests). Market liberalizations, deregulation and networks developed global markets and thus global corporations.

Starting around 2005, medium-sized and even small companies found ways to access the various global production systems – of all kind. What had previously only been possible for the largest companies was now within reach for all. A parallel could be made to the changes in computing in the 1980's: Before then, investments in computers were beyond the reach of most small and medium companies. The PC, the network and the ubiquitous Internet changed that. In the same way, the productivity in sectors and processes that had previously not been affected by globalization exploded, in particular in services. The supply-chain optimization that the world of manufacturing had gone through around the turn of the millennium also took place in services.

Many service sectors were dissected and "re-engineered". Even though a service is often produced when the customer meets the provider, there are many processes that have been both industrialized and outsourced. Back-office operations in the banking sector had moved to Eastern Europe (Riga in particular). Swedish-speaking call-centers have grown in both Tallinn and Istanbul.

In healthcare, telemedicine had as early as 2005 enabled radiologists in Spain and Thailand to serve patients in Sweden, but by 2010, many surgical operations could be carried out at a distance. Globhealth had become one of the leading companies in the world in the field of hospital and patient management (it began as a joint venture between Getinge, Skanska, IBM and Manpower).

Swedish success stories can also be found among companies in the education and training sectors. The worldwide market for language training exploded (in particular when it came to English courses in East Asia) and EF (already the world's largest language teaching company in 2005) was able to take a substantial share of that market.

The "Swedish Spiders"

The reason behind Sweden's success is the successes of a number of global companies. Once again, Swedish business has shown an adaptability and a pragmatism second to none. In other European countries and the US, once proud corporations have shrunk or disappeared, or are still struggling. Which are these Swedish global great companies? They do not come from any particular industry in the traditional sense of the word. Instead, they have in common that their main talent is to develop concepts and manage complex systems that have spread successfully onto many markets. A phrase was coined to describe them; "The Swedish Spiders", comparing the companies – or rather corporate systems – to the spider sitting in relative control of his web and in symbiosis with his environment. Historically, Sweden's industrialization was driven by a number of innovative companies ("Snilleföretag") who successfully exploited the power of an innovation: Ericsson, AGA, SKF, Alfa-Laval, etc. In Sweden Inside, the story is similar, but the "Swedish Spiders" were the engines.

This had been a change that could be traced back to the 1990's, the 1980's and even earlier, with the rise of pioneers such as IKEA; H&M and Gambro. IKEA and H&M surfed the wave of globalization and refined their concept during the late 1990's and early 2000's. This meant that they had concepts and proven solutions that were ready to take over new markets at a very high pace. Their expansion was also made easier thanks to their superior control over their supply chain. They differed from many other retail companies by only selling their own products and retaining control of the design process and (usually without owning) of the production process. Thereby, they differenciated themselves from the global retail giants (Wal-Mart, Carrefour, Aldi, etc.) who remained stuck in the low-price low-margin corner, and were increasingly in the hands of their suppliers. During the 2005-2010 period, there seemed to be no limit to the expansion of IKEA and H&M into new consumer markets. H&M met with tremendous success in the US, and IKEA became dominant in Central and Eastern Europe and grew steadily in Asia. From 200 stores worldwide in 2005, IKEA grew to over 700 stores in 2015 (including 15 in Russia and 145 in China).

Another successful corporate example is e-man, the specialist in systems integration in manufacturing. Through a partnership with SAP, Microsoft and Tipco and thanks to their highly productive unit in Hong Kong, they can count many of the world's leading industrial systems as customers.

Many also point to the success of Metro, the Swedish business concept for a urban newspaper distributed for free. By 2008, it became the world's most widely read daily (not least through its successes in Delhi and Mumbai).

Alongside these concept development and system management companies, Sweden is also home to a number of very strong brands that have migrated far beyond their original area. For instance, Gant is a lifestyle brand that spreads from fashion to home furnishing and beyond.

The strength of the Swedish business sector has been a prerequisite for the sound public finances that still make it possible to provide welfare for the many pensioners. It has also made the Stockholm stock exchange one of the most consistently overperforming bourses in the world, thereby providing returns to the many small investors with private savings complementing pensions.

Of course, there were losers as well. First and foremost were those who did not keep up in the "race for competencies" and who proved to be unemployable in the dynamic and demanding business sector. Remember, Swedish companies were competing with the very best companies in Europe, the US and Asia.

Still, the successful business sector made it possible for an increasing number of households to purchase home-care services. These “second-class workers” remain stuck at the low end of the private-sector wage scale. On the other hand, it has made it possible for many people who were not born in Sweden to enter the labor market.

Sweden’s success has also meant that companies have had to find new ways of recruiting talented co-workers. And instead of attracting foreign workers, many companies turned to the pensioners and offered them very advantageous packages to lure them out of retirement. The large cohorts born between 1945 and 1950 were only aged between 65 and 70 in 2015. After a few years in retirement, many thousands were eager to become gainfully employed again, and they were welcomed with open arms by the companies.

Scenario 2: Made in Sweden

THE SCENARIO IN A NUTSHELL

In the “Made in Sweden” scenario, Swedish business has maintained and strengthened its role and turned Sweden into one of the most successful “neo-industrial knowledge economies”. It is home to a number of industrial groups that are successful in the European markets, and also to many smaller companies serving the national market. The vertically integrated and knowledge-integrating manufacturing industry (advanced products and solutions) is at the heart of the business sector, and supports a thriving service sector. Meanwhile, outside Sweden, mistrust spread among nations, jeopardizing the efforts to improve global governance. At the same time, the global production and logistics systems suffered significant failures, which hit the world economy created new political struggles. In a sudden and drastic way, countries retired into national or regional solutions with much focus on bilateral agreements and the revitalized concept of flexible self-sufficiency. Some countries lost, whereas others – like Sweden – fared well in this context.

The context for the scenario

A decade into the new millennium, the excesses of supply-chain globalization started becoming apparent. The worldwide web of production, logistics and information had grown and grown in size and depth, and had become intractably integrated at breathtaking speed during just a few decades. Connecting technologies, the search for productivity, the opening of markets, all these coincided and heralded an era of global growth and prosperity. But there were certain key variables that had not been taken into account, and they converged to halt and even reverse the globalization trend by forcing both governments/nation-states and global corporations to turn inward and find their own, in-house solutions.

One was **politics**, power relations. The rich nations had shown a great desire to access a pool of cheap and hungry labor operating under less-than-scrupulous standards, without fully appreciating the consequences of boosting the power of countries such as China and India. The difficulties in achieving progress in the renovation of the post-world-war-two multilateral institutions meant that nations lost faith in the common solution. The strong EU vision of its post-war founders did not survive into the next generation of leaders, and José Manuel Barroso was actually the last chair of the European Commission, since this organ was disbanded and replaced by the Administrative Agency of the European Council. Europe continued to be a well-oiled machinery with an adequately functioning internal market (supervised by the European Trade Organization), but did not evolve politically towards solving other common problems. By and large, countries were content with a minimum of global governance institutions, and turned much more of their focus to the national level. This ushered the world into an era of mutual suspicion, fraught relations and neo-nationalism. Beyond a certain point, this started to hit back on economic globalization.

Another was the **energy-environment-climate equation**. The process of globalization of production and value-creation had presupposed cheap energy. The abrupt end of the era of cheap energy (overall energy prices doubled between 2004 and 2006) led to reduction in private consumption and to higher inflation rates. In the West, it also led to a wide questioning of the unsustainable resource-exploiting mindset at the heart of the globalization paradigm (the “take-make-waste” model) and great progress towards a more eco-effective way of life and production.

Another was **consumer attitudes**. Whereas it had been previously assumed that the large Western European and American markets had an insatiable appetite for cheap mass-manufactured goods, regardless of where they came from, it became obvious that this was not the case. The mood switched, beginning with goods close to home (not least when consumers turned their backs to the industrialized food production that had invaded the markets) but rapidly expanding to include most consumer goods, both fast-moving and durable. This in turn meant that the companies serving customers needed increased presence at the heart of the markets.

The most important factor however came from **changes inside the corporations**. Gradually, many large global companies realized that they had ceded too much control and power to outside players (suppliers, partners, etc.) without paying sufficient regard to inherent risks. The troubles for European importers and retailers of Chinese-made clothes that got stuck in warehouses in 2005 because of new quotas acted as an alarm clock. Typhoons in Southern China in 2006 disrupted world logistics in essential ways, and repeated hurricanes in the Gulf of Mexico continued to affect the flow of goods to and from the US. Cracks appeared in this once-hailed magnificent global supply-chain machine. The systems were just too complex, and the management disadvantages of having the different parts of the company spread all over the world became clear. In the words of some observers, the years between 2005 and 2008 were the “de-globalization years”. Japanese companies were among the first to take back production as early as 2003-04, but Swedish companies followed soon thereafter.

Of course, not all production returned to Swedish soil. Labor costs meant that certain forms of production were just not possible inside Sweden. But Sweden was able to make use of its geographic position and Swedish companies expanded their manufacturing presence on the other side of the Baltic Sea, in particular in Latvia and Lithuania. That way, they could profit from labor costs that were less than half of Swedish levels, but not suffer from the rising costs and mounting risks of producing in Asia. In particular, the patience of Swedish and European companies with regard to the Chinese partners' continued disrespect of intellectual property rights ended. By relocating closer to home, they still felt "in control" of the production because of the geographic and cultural proximity. Scania's plant in the Lithuanian town of Klaipeda (inaugurated in 2009) is perhaps the best illustration of these developments. Swedwood (IKEA's industrial group, producing over 55 percent of IKEA's products) also continued to concentrate its sourcing to Northeastern Europe (Poland, the Baltic states and Russia).

Keeping the systems together

De-globalization did not mean turning the clock back to the old days before post-war internationalization. Instead, it meant regaining the control that many felt had been lost. It meant that companies were now being managed with a far greater closeness between the different corporate value-creating sub-systems. In the first years of the 2000's, when outsourcing and global supply-chain expansion were the main corporate strategies, it was thought that the talents and tools to keep the different sub-systems together were good enough, or were being perfected fast enough to keep pace with the increasing spread and complexity. This was not the case. Increased risks, rapidly changing customer demands and increasing costs (after the rise in energy prices) meant that more and more companies started looking at ways to make the different parts less dislocated: The industrial system (manufacturing), the commercial system (customer interface), the innovation system (product development) and the governance system (management) had of course to dance to the same tune. In particular, the industrial and commercial systems had become increasingly integrated in many of the industries where Swedish business had its strongest position (automobiles and heavy machinery were the best example, where customized production was the norm).

In the field of mass-produced products for mass-consumer markets, this integration was not as necessary. But Sweden had never had its strengths in these industries. Also, because of Sweden's relatively small home market, the behemoths of large-scale mass-market retailers (Carrefour, Tesco, Aldi, Wal-Mart, Rewe etc.) never really made it into the country. Sweden had not been as exposed to these hypermarkets and their cheap imports of consumer goods.

Sweden turned out to be quite good at “de-globalizing”, for at least three reasons. The first was that even around the turn of the millennium, the country still had a fairly diversified industrial and business base, especially compared to economies of similar size. There was also an industrial tradition that was alive and well. Also, Swedish companies and research institutes were, as ever, active in the large international research projects.

The second reason was that Swedish industry had always been adaptable, pragmatic and able to adjust to changing conditions in the business environment. For instance, when the crisis at General Motors led to the decision to liquidate Saab Automobiles, Volvo Cars was quick to take over the company’s Sweden-based assembly capacity and competence.

The third reason was that Sweden had managed to strike a number of bilateral deals with other countries to secure key resources, competencies or access to markets. Agreements with the Baltic States (e.g. on taxes and labor market regulations) made it possible for the outsourcing of production. Through the bilateral Energy Treaty of 2009, Norway became the main provider of Sweden’s oil and gas. Inexpensive mass production capacity was accessed through agreements with Thailand, in particular for clothing and textiles. The country had remained a favorite Swedish destination, and home to over 10,000 Swedes). South Africa was also a “most trusted nation” and functioned as a gateway into the rest of Africa for Swedish business. Finally, good relations with Brazil had led to an agreement whereby Sweden provided industrial knowledge and expertise in exchange for meat and biofuel.

An old concept comes back in fashion – self-sufficiency

In this new climate, both corporate strategies and the national industrial policy turned towards the old idea of self-sufficiency. It had become quite outdated during the post-war period, with the gradual growth of mutual interdependence and international cooperation. But when the perceived risks of globalization started mounting, perspectives returned to the national, to the local. There were two areas in particular where the principle of national self-sufficiency grew strong in Sweden.

The first was in the area of energy. The rising costs of energy from 2005 onwards (and the geopolitical instability that ensued) made Swedish policymakers (in a wide consensus) embark on an ambitious strategy of breaking Sweden’s dependency on imported oil. The main avenue was through energy efficiency, but also through a shift to biofuels for transportation and district heating for houses. Also, Swedish environmental technology companies (such as biofuel specialist Talloil, heating equipment specialist NIBE and technical consultants Sweco) have grown to become world leaders in the field. To ease the transition, Sweden did of course need continued access to oil and natural gas, something that the Energy Treaty with Norway secured.

The second area where the drive for self-sufficiency was strong was in the area of food. Here, globalization had gone quite far and Sweden was very much part of the wider, industrialized food-production and food processing system that had first been European and then increasingly global. A number of dramatic shifts in consumer behavior hit foreign imports (especially from outside Europe). A few “food scares” and increased food information among the public had a rapid and quite profound effect on purchasing and consumption patterns, in favor of domestically produced food, or at least non-industrial food. “Made in Sweden” became an important brand attribute in the Swedish food business.

Scenario 3: Outside Sweden

THE SCENARIO IN A NUTSHELL

In the two previous scenarios, Swedish business succeeds – albeit in very different ways – to thrive in a tough, challenging environment. However, talking about the future only in terms of success stories is not enough. Thus the “Outside Sweden” scenario.

It this scenario, Sweden fails. The economy, the business sector, even society fails to adapt. The Ten Top Trends materialize and create tremendous opportunities, but Sweden is unable to exploit them. Instead, the country reverts to an inward-looking, isolationistic attitude in which the best companies and the most talented individuals do not see a future. They leave.

Politicians had promised changes in the fiscal regime, in higher education, in infrastructure, in labor market flexibility. But none of these changes materialized. Infighting, hung parliaments and a succession of ill-advised reforms dominated the political agenda for a period of four years (2006-2010). And by then it was too late.

A number of large corporations started moving already in the 1990’s. Between 1995 and 2005, 75 large public companies saw their corporate headquarters leave the country (sometimes through mergers and restructuring, but not always). This trend accelerated, and by 2012, only one of the seven companies that figured on Fortune’s Global 500 list (ranking non-American companies by revenues) still had its base in Sweden – Vattenfall. The others on that 2005 list (Volvo, Ericsson, Skanska, Electrolux, Nordea and SCA), alongside many more large corporations, had either been acquired by foreign companies or had moved to other bases.

Because of this, the worldwide market share of Swedish industry had shrunk in most of the sectors where Sweden had had its strength. By 2015, there was no Swedish automotive industry (some plants and some suppliers subsisted).

The pharmaceutical industry had some capital-intensive production facilities in Sweden (not least in Strängnäs and Södertälje) and it still conducted some research (mainly in Lund), but as a whole, its share of the economy had dropped drastically.

In heavy engineering and machinery, the competition from other European groups was proving too tough, since they had successfully shipped their production to Central and Eastern Europe in the mid 2000, when the Swedish companies were too slow.

Retail banking had been consolidated and three of the four large banks in Sweden were now part of European/global groups (Handelsbanken was the only exception).

This corporate exodus had profound effects on the labor market. By 2015, a majority of the people working in the business sector were now on the payroll of foreign-owned companies (up from 22 percent in 2005). It had led to a larger share of the privately-employed working in smaller companies, but many of those companies were local/regional players struggling to compete outside Sweden.

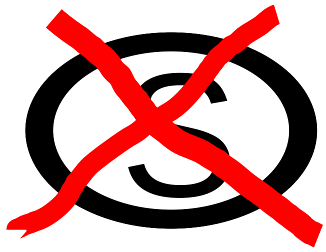
When the corporate executive functions left the country *en masse*, this hit the business services sector hard (accountants, law firms, consultants, advertising agencies, etc.) since a large part of it depended on proximity to the important decision-makers.

Regionally, Southern Sweden fared slightly better than the rest of the country, mainly thanks to two developments. One was the region's popularity among the successful Swedes who had moved to other countries in Europe and who chose both the north-western and eastern coasts of Skåne as their summer residences. These wealthy "expats" were not popular but they provided much needed income and summer jobs. A similar growth could be seen in other parts of Southern Sweden (especially in the region known as Kleinland) thanks to the gradual turn-around of the German economy which enabled families from Hamburg and Berlin to buy cottages and cabins in Sweden.

The other was that the countryside in Skåne had become the home for many well-to-do Danish households commuting to Copenhagen. The Danish economy had continued to grow healthily. The wealthy Danes' arrival to Skåne had crowded out many Swedes. Meanwhile, the city of Malmö was struggling with social problems caused by violence and ethnic segregation just as bad as some the worst examples in Europe – large parts of the city center were virtually lawless neighborhoods.

For the rest of Sweden, the steady stream of foreign tourists (attracted by wilderness and the weak currency) was the most important source of revenue. They came to the Southern coasts, to the Stockholm archipelago and to Lappland's wilderness, increasingly oblivious of what was left of the economic base of a once-proud industrial nation.

What the scenarios tell us



Outside Sweden

The first scenario, “Sweden Inside”, reflects a state where Sweden’s business and industry has become more or less totally integrated into the various value-creation systems, even though Swedish interests may only control a few of them. Sweden thrives on its specialization and competencies in the field of systems design and management.

The second scenario, “Made in Sweden”, reflects a Swedish business and industry that is vertically integrated and far more self-sufficient. Sweden is competitive in the major steps of the value chain, but business and industry put a limit to its integration with the global economy. At the same time, in this scenario, the conditions were no longer there for continued globalization.

In the third scenario, “Sweden Outside”, Sweden lost its edge. Because of internal mismanagement and bad luck Sweden becomes a neo-poor country with budget deficits, weak currencies, record inactivity rates and no growth. The main sources of income are foreign tourists and successful Swedish expatriates.

Will any of these scenarios come true? Of course not. Are there developments in these scenarios that we may recognize in the future? That is what we hope for. Depending on how the “Ten Top Trends” are rolled out and how they interact, and most importantly on how business people and entrepreneurs act, Sweden and Swedish business will take many different shapes.

Final Reflections

The world around Swedish business – and Swedish business itself – will in 2020 be as different from 1970 – then 50 years ago – as 1970 was different from 1870 – then a hundred years ago. Over the next 15 years the world will need to create a billion new jobs. Only in China 300 million new jobs will be added. In Sweden another 500 000 new jobs must emerge, and many of the 4 million existing jobs need to be renewed.

The pace of change is determined by our own human desires for higher standards of living and security. A key question is whether the ambitions of the rich and the poor can be reconciled with the environmental realities. This question still has no answer.

At present, the favorite strategy of business and governments alike is to satisfy our appetite for growth with innovation. This emphasis on innovation will speed up change. If the rate of innovation increases by 25, 50 or even 100 percent over the next 15 years, and if our ability to bring innovations to the market also increases by 100 percent, the result will no doubt be a kind of pressure-cooker market. The rate of "creative destruction" will escalate even beyond the imagination of Josef Schumpeter.

The rapid change of technology platforms and products will also create confusion and uncertainty. Increased speed of change is by definition a step towards increased risks which may hold back investment.

To find the proper mixture of change, stability and security can never be made once and for all. Every era has to find its specific blend of institutions and policies. The blend of entrepreneurial market economy and social security systems that will work by the year 2020 will have to be an invention of its own time.

As always, the way various short term power interests play out will be decisive for shaping of the longer term consequences. Both political power and corporate power are today shaped by more and more short-term considerations, and are subject to continuous scrutiny by opinion polls, financial analyses, market surveys, the media, lobbies, and actions of consumers and NGOs. These phenomena are increasingly global. They are pressing decision-makers in both the political and corporate worlds towards constantly fixing short-term survival rather than fixing long-term problems and realizing long-term opportunities.

This obsession with the present and with retaining maneuverability has contributed to the fact that “the world” has not been able – <u>we</u> have not been able – to formulate robust and common policies addressing the most fundamental questions of all for societies and markets: environmental damage, climate change, greenhouse gases, poverty, nuclear proliferation, terrorism, global health, organized crime, corruption, etc.

We can simply not bet on a future that will allow for all the “good” outcomes to fall into place, neither can we place our bets on an outcome where all the “evils” simultaneously emerge (as they sadly have done time and time again throughout history).

The future of business is deeply intertwined with the evolution of society at large. The debate over the short-term should be complemented by a broader debate on how the increased speed of change that we see can be complemented with measures that contribute to the stability of the national and global business environments. The perception of a more stable business environment (not least in term of macro-rules and conditions) will have a positive effect on our long-term thinking, investments, risk-taking and consequently on jobs.

The worst that could happen to the future of Swedish business would be a break -down of globalization and a retreat of the world into protectionism. The present trend away from seeking multilateral solutions of the problems mentioned above, and towards more neo-nationalism is therefore worrying. A major task for business in years to come has therefore to be to contribute to an increased trust in the governance of common problems and opportunities – even if in short-term conflict with national ambitions.

The future of business will not only depend on its ability to adjust and develop new products, services and business models, but also on the way it helps promote the emergence of a more stable environment for the doing of its business.

Business – as all of us – will have to come to terms not only with our past, but also with our future.