Adapting to the Global Economy
Globalization is an extinction event

In a globalized economy, economic performance has new drivers:

- Flexibility
- Differentiation
- Creativity/ Innovation
- Excellence
- Competition

... Economies that **ADAPT** to those factors will thrive.

Economies that fail to adjust will lag behind, ... face extinction.
Portugal must adapt

• The current crisis has emerged from the inability of Portugal to adjust to globalization.

• In the coming years, Portuguese society and economy must adapt or become an impoverished laggard.

• This adaptation will change the core of the Portuguese society.

The alternative is to face extinction!
Two decades of postponed adjustment,...leading up to the crisis

The current crisis has its root in the stagnation of productivity in the last two decades.

Globalization poses important challenges to Portugal’s Economy, Values, and Institutions.

Portuguese society reacted to globalization with a protectionist reflex that hurt productivity growth.

Portugal needs to transform its economy and society to meet the requirements of globalization.
The standard narrative of the financial crisis

Evolution of Unit Labor Costs of Portugal relative to Eurozone (1995=100)

Gross Savings (% GDP)

Debt (% of GDP)
The productivity view of the crisis: 20 years in the making

Average annual growth rate of GDP per hour

- Portugal
- Irlanda
- Eslováquia
- Eslovênia
- Estônia

The Stagnation of Productivity
The challenges of globalization
The temptation of protection
Transform to grow
Productivity stagnated despite extensive investment

**In human capital**

% of pop. with tertiary education relative to Eurozone average

![Graph showing % of pop. with tertiary education relative to Eurozone average]

**In fixed capital**

GFCF in % of GDP

![Graph showing GFCF in % of GDP]

**The Stagnation of Productivity**

- The challenges of globalization
- The temptation of protection
- Transform to grow
The Globalization shock...

**Ratio of Per Capita GDP Levels, 1AD - 2008 AD,**
Source: Angus Maddison

**Exports from developing and developed countries, 2005-2030**
Source: World Bank, GEP 2007

- High-income countries
- Developing countries

- US$2001 trln.
- 22%
- 32%
- 45%
- $27 trln

The Stagnation of Productivity
The challenges of globalization
The temptation of protection
Transform to grow

The temptation of protection
Transform to grow
...has put Europe under reform

Many have undergone reforms...

The Hartz reform in Germany (2003-2005):

- Increase effectiveness of labor market services and accountability of local employment agencies,
- Decline in duration and generosity of unemployment and social benefits
- Facilitate employment of temporary workers

Flexicurity in Denmark (1990’s):

- Decentralization of wage bargaining.
- Decline in duration of unemployment subsidies fell from 7 to 4 years, tighter criteria, and obligation to look for work after one year.
- Active labor market policies focusing on skill upgrading.

...and those reforms have paid off

SOURCE: EU KLEMS: McKinsey Global Institute analysis
Globalization has been hard on Portugal: It populated our competitive space.
Globalization has been hard on Portugal:
It challenged our European strategy

Economic growth of the 15 largest destinations of Portuguese exports in 1990 + 15 markets with large growth between 1990 and 2010

- China
- Angola
- Dinamarca
- Suíça
- Bélgica, Suécia, EUA, Holanda
- Itália
- Noruega
- Áustria
- Finlândia
- Reino Unido, Espanha, França, Alemanha

The challenges for Portugal

**Economy**
- Emerging economies (India, China) dislocated the space of Portugal in Europe and the World.

**Values**
- The values of the contemporary Portuguese society are not aligned with the requirements of globalization
  - 1. Meritocracy vs. Egalitarianism
  - 2. Responsibility vs. Victimization
  - 3. Mobility and Risk vs. Rigidity and safety
  - 4. Excellence vs. Problem-solving

**Institutions**
- The allocation of resources and regulation is distorted by vested interests to protect incumbents
  - The weakness of the justice system
  - Proximity between political parties and economic power
  - Personal relationships
Yielding to protection

1. The protection of public sector jobs

In 2005, 40% of the workers with higher education were employed in the Central Administration!
2. The protection of employment

Indicators of Employment Protection (2008)

Unemployment Benefits (2008)
Yielding to protection

3. The protection of non-tradables

<table>
<thead>
<tr>
<th>9 Largest Companies</th>
<th>Portugal</th>
<th>Netherlands</th>
<th>Denmark</th>
<th>Sweden</th>
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- Banking
- Banking & Insurance
- Aerospace & Defense
- Electronics
- Insurance
- Food Markets
- Oil & Gas
- Telecommunications
- Transport
- Infrastructure
- Utilities
- Banking
- Banking & Insurance
- Capital Goods
- Drugs
- Food, Drink & Tobacco
- Telecommunications
- Ocean
- Transportation
- Banking
- Banking
- Banking
- Capital Goods
- Drugs
- Food, Drink & Tobacco
- Retailing & Clothing
- Technology
- Telecommunications
- Banking
- Banking
- Bus. Serv & Supplies
- Conglomerates
- Construction
- Food, Drink & Tobacco
- Insurance
- Materials
- Air Transportation
1. Building a flexible and adaptable economy

- Reduce the weight of the State and increase focus in productivity, including in the public sector
- Create more competition and regulatory pressure on non-tradables
- Liberalize the labor market and fight informality
- Reduce explicit and implicit costs of the justice system
- Give credibility to the State through an independent organ to fight implicit and explicit corruption
- "Technocratize" economic policy (e.g., Council on Fiscal Policy)

GOING BEYOND THE TROIKÀ’S STRUCTURAL REFORMS!
2. Leadership in change

“We are moving from a certainty society to an uncertainty society,” says Antonio Barreto, a sociologist. “The government needs to be careful because it is touching a nerve, perhaps even a soul.”

The Economist, Mar 3, 2012

Educate and prepare the population for the new paradigm

- Reform the education system in order to increase adaptability and mobility
- Take on a discourse with emphasis on responsibility
- Place the challenges to Portugal in a wider European context
3. Establish a vision for Portugal in globalization

- Leverage the Portuguese specificities (Sea+Sun, Lusophony, Hospitality).
- Diversify the geography of commercial trade in higher growth markets.
- Implement industrial policy through technocratic institutions (e.g. promote exports, development bank)

... to leverage the technological leap

Portugal podia ser 'abelha' mas é 'cigarra'
sem resultados

por Rui Marques Simões  Hoje

O País fica em 30.º lugar no 'ranking' da inovação, divulgado esta semana pela COTEC. Tudo porque, apesar de ter recursos e condições, não domina os processos nem alcança bons resultados nesta área. "Portugal está no topo dos desperdiçadores, com perfil de 'cigarra',", descreve o estudo, que compara os países a animais... deixando Portugal longe de 'abelhas' como os países nórdicos e a Suíça, mas à frente dos 'caracóis' da Europa do Sul.
Internationalization: The best-practice from Ireland

Forfás
• Quasi-governmental entity
• Independent and rigorous research
• Evaluation of policy interventions
• Provision of shared corporate services
• Integrated approach
  • Coordination of sister agencies (IDA, Enterprise Ireland, Science Foundation Ireland)
  • Provide support for advisory groups (Science, Skills Needs, Competitiveness Council)
In Portugal, internationalization strategies are managed at the political level, subject to the institutional shortcomings of the political system and vested interests and the short-termism of the political cycle.
3 Pillars for action

Building a flexible and adaptable economy
- Go beyond the Troika’s structural reforms

Leadership in the change process
- Educate the public about the challenges of globalization and the implications for Portuguese society and mindset

Establish a vision for Portugal in globalization
- Develop and implement an industrial policy through an independent, technocratic agency
The mammals in the cave are "cynodonts" – our ancestors at the KT boundary. They adapted to their new environment and evolved to dominate the earth.