

# THE GLOBAL DRIVERS OF CHANGE

Kevin Lynch



The former Clerk of the Privy Council observes that Canada's economic fate, or its destiny, is largely being shaped by six "global drivers of change," from globalization and the information revolution to changing demographics and climate change. "We now live in an increasingly multipolar world," he writes, "where the pace and scope of change are accelerating."

L'ancien greffier du Conseil privé observe que le devenir économique du Canada — ou son destin — est en grande partie façonné par six « facteurs de changement mondial », de la mondialisation proprement dite à la révolution de l'information en passant par l'évolution démographique et les changements climatiques. « Nous vivons dans un monde de plus en plus multipolaire, note-t-il, où le rythme et l'ampleur des changements ne cessent de s'accroître. »

Canadians do business, earn their livelihood and buy their goods and services, whether they always recognize it or not, in a truly global marketplace. That global marketplace is now experiencing the first synchronized worldwide recession in over half a century. And that global marketplace is changing, driven even more by structural factors than by the current global financial crisis.

Canada's new competitors are as likely to originate in Shanghai or Hanoi as in Michigan or Seattle. Knowledge and product breakthroughs are as possible from Helsinki or Singapore as from Silicon Valley or MIT. News will likely appear on the Web or Twitter or Facebook before newspapers or television networks report on it.

The world's tallest building is in Dubai, not the US or Europe; the world's largest shopping mall is in Beijing, not Chicago; the largest movie industry is Bollywood, not Hollywood; the world's largest publicly traded company is Chinese, not European or American; the 2016 Olympics will be in Rio, not Chicago; and the world's richest person is Mexican. We now live in an increasingly multipolar world, where the pace and scope of change are accelerating.

In eight years, Canada will be 150 years old. What will the world and Canada be like in 2017? Is the status quo a good predictor of our future, or not? Notwithstanding Yogi Berra's view that "it's tough to make predictions, especially about the future," it is one thing to be surprised by unexpected events and another to miss trends. And today's global drivers of change are increasingly clear.

What I would like to offer is one perspective on six global drivers of change that are, to varying extents, reshaping the world. Now, these are not Canadian in origin, nor are they targeted at Canada, but they will affect us, whether

we always like it or not. The issue for Canada going forward is *how* and *when* we adapt to these global trends, and *whether* we are better able than our global competitors to maximize opportunity and minimize risk.

(1) *Globalization.* We are now living in a pervasively interconnected world where markets for capital, goods, services, labour and information operate 24/7. Whether in financial markets, global supply chains, communications networks or demands for skilled labour, national boundaries don't define marketplaces as they used to. These forces of globalization have created untold new jobs, particularly in emerging countries and in emerging sectors; increased consumer choice; and raised living standards in both the developed and the developing worlds.

But globalization is not a frictionless, costless, benign dynamic. Along with this globalization of commerce writ large have come concerns about cross-country quality standards, regulatory consistency and environmental differences. Truly international criminal organizations and terrorist groups have been created — in effect, a globalization of insecurity. Institutionally, globalization has outstripped the postwar structure of international governance, with sometimes unpleasant consequences. The challenge will be to find the right balance of common and enforceable international rules and regulations, consistent with national sovereignty, and a governance structure that reflects the "rise of the rest."

(2) *Science and technology.* We are experiencing a unique pace of technological change. This is reshaping innovation systems; it is disrupting markets, with new products being developed faster and faster; and it is shifting where centres of technological advantage are located, and why. The

modern wealth of nations will be determined as never before by intellectual capital and human capital.

Canada has correctly poured major new resources into publicly-funded basic research over the last decade. But more focus on the commercialization of results, on building globally best centres of research excellence and on private sector R&D efforts — which

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are currently below the norms of our international competitors will be needed going forward.

(3) *Information.* We are now part of a global 24/7 digital universe, propelled by soaring micro-chip power, plummeting bandwidth costs and the World Wide Web. These developments have opened up infinite amounts of data and information, changed the way people buy things and interact with each other, and revolutionized communications.

But, as a consequence, all of us face downsides: cybercrime, the lack of cybersecurity and breaches in cyberprivacy. The exponential rise in Internet-enabled information has not been matched by a commensurate growth in knowledge. And we operate in a world of insatiable demand for information and instantaneous responses, often beyond the capacity of firms and governments to manage these information expectations.

(4) *Demographics.* We are all individually aging and have been for some time, but for the first time in centuries, so are societies, but not everywhere and not equally. While today's focus is rising unemployment, the issue in the medium term will be not a jobless recovery but a workerless expansion. The future workforce in Canada will decline, absent increased immigration,

while countries like Russia and Japan face absolute reductions in their populations. Even China, with its one-child policy, has an aging population, unlike India.

In Canada we are aging but we are also becoming more diverse: by 2017, visible minorities will be the majority in two major cities (Toronto and Vancouver), and the knowledge workplace will be increasingly dominated

by women. To continue to grow our knowledge workforce into this demographic future, attracting highly skilled immigrants and a strong emphasis on education and skills will be essential.

(5) *Climate change.* We live in a world with profoundly different views on climate change, but the fact is that this is a subject everyone has a view on, and the consequence is that no company or government can ignore the issue. How countries respond to it will increasingly shape environmental, economic, political and societal behaviour in the decades ahead.

In this often confusing cauldron, environmentalists want dramatic change; businesses want certainty; individuals clearly support an improved environment, both at home and abroad, but are less clear about the costs they are willing to bear to achieve this; and governments try to find common ground. As decisions are contemplated by governments, either singly or in groups, the scope for policy arbitrage across countries will arise, fuelling pressure for clear, achievable, and enforceable international rules of the game.

(6) *Financial crisis and recession.* We are still experiencing the first financial-crisis-induced global recession since the 1930s. Right now forecasters in all industrial countries, who to a person

missed the downturn, are confidently advising on the timing of the upturn. But we are going through more than an ordinary economic cycle; this global financial crisis will have lasting implications. Capital and some types of enterprise will shift locations; consider as an example London and the financial services industry. Trade liberalization is in some jeopardy, with the rise of overt and veiled protectionism. The role of government will change, with the trend to less regulation that began with Reagan and Thatcher reversing itself to varying extents. The public trust in business leadership has been eroded, particularly in the US and Europe: witness the public

debate over executive compensation. At the same time, public distrust of globalization has risen. Moreover, wealth has shifted within and across countries, shifting power and confidence with it.

Countries with relatively stronger regulatory systems, better fiscal balance sheets and relatively more robust safety nets geared to cycles, not just continued growth, have done better. The contrast between the performance of the US and Canada in the current global recession is a relevant case in point.

Let me conclude with several observations on what the Canadian drivers of success might be in this rapidly changing global environment.

First, we need more of a global orientation, in our mindsets, in our networks, in our alliances, in our policies. We must be aware of the rise of China and India, both absolutely and relatively; the demographics of aging; the rise of national oil companies as the main suppliers of energy, not international oil companies; the shifting of global economic power; and the rise of asymmetrical military threats and the globalization of insecurity. As the Competition Policy Review Panel, chaired by Red Wilson, observed in 2008: "Canada must be ready to keep pace with change and develop a global mindset that is open to two-way trade, investment and talent.

Canada's economic success will be determined by how well we deal with the economic, social and political forces that are driving globalization."

In this changing world, growth and progress are not preordained. Neither are they circumscribed. The challenge is how well we respond to these trends, in our private sector, in our public policy, in our universities and in our public services. And we must tackle these challenges with a sense of urgency, not complacency. We need more emphasis on speed and agility, rather than process and entitlement.

Second, governments, public policy and public service always matter, and will matter more. As we face these global drivers of change, good governance and sound, forward-looking public policies will be key differentiators across countries. Restoring fiscal balance will be a crucial part of Canada's future advantage, just as our relatively strong fiscal position has been a key source of national strength going into the present global financial crisis and recession. For the country, future com-

petitiveness will be increasingly shaped by skilled labour and by innovation, and we need to orient our policies and behaviour accordingly. As firms, sectors, provinces and national, we need to improve our productivity performance or we will constrain our future living standards, and our choices.

Third, brands matter. This is true for companies, but also for sectors and for countries. The negative branding of Canada by the *Wall Street Journal* in 1995, when it declared Canada an honorary member of the Third World, had a lasting impact on investors and international opinion. The positive branding of our financial sector this spring, at a time of maximum global uncertainty, by commentators as diverse and influential as Paul Volcker and Fareed Zakaria, saying in effect that Canada had much to teach the US and the world, mattered and had an impact. But we also risk negative branding by others, in areas like the oil sands, unless we aggressively shape our energy brand. Positive brands reduce uncertainty, influence invest-

ment decisions and reduce risk spreads. We need to invest in the Canada brand, one based on our strengths, our opportunities, our excellence and our values, and use this brand to attract newly foot-loose capital, and the high-quality jobs it brings, to Canada.

Where does this all take us? Churchill once observed that "mountaintops inspire leaders and valleys mature them." Canada has those mountaintops: extraordinary natural resources, a well-educated population, a multi-ethnic society, a constitution and people who embrace "peace, order and good government" as a value. And we've certainly experienced the valleys, and learned from them. For Canada at 150 to be more prosperous, more secure and more confident than Canada at 125, we need to embrace, not fear, the opportunities inherent in this rapidly changing global environment.

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