Between 23 and 26 January, the Swiss mountain village of Davos hosts the 48th World Economic Forum Annual Meeting. The programme, initiatives and projects of this year’s meeting are focused on the theme Creating a Shared Future in a Fractured World.
Contents

EU countries best in class for inclusiveness and talent competitiveness 4

IMF warns of ‘harder’ crisis as bullish CEOs come to Davos 6

‘Boring’ Trump delivers America’s sales pitch in Davos 8

Dastis: ‘Not all our bold ideas for eurozone reform will be fulfilled’ 10

Davos wrap-up: A sense of optimism on Europe and the global economy 13
If you thought the EU was incapable of being inclusive or attracting and producing talents, you’d better think twice, business leaders gathered in Davos heard on Monday (22 January), hours before the start of the World Economic Forum.

European countries top the list of the Inclusive Development Index, released in Davos today. The most inclusive advanced economy in 2018 is Norway, but small EU economies dominate the top of the index, with Australia the only non-European country in the top ten.

The Inclusive Development Index is an annual assessment that measures how 103 countries perform on 11 dimensions of economic progress in addition to GDP, including inclusion, intergenerational equity and sustainable stewardship of natural and financial resources.

Lithuania, Hungary, Latvia, Poland, Croatia and Romania perform well on Growth and Development, benefiting from EU membership, the WEF report reads.

The EU seems to be doing things right when it focuses policies on solidarity and cohesion. In other countries, the excessive reliance by economists and policymakers
on gross domestic product as the primary metric of national economic performance has been part of the problem. GDP measures current production of goods and services rather than the extent to which it contributes to broad socio-economic progress as manifested in median household income, employment opportunities, economic security and quality of life, the WEF underlined.

“Policymakers need a new dashboard focused on sustainable development progress rather than economic growth as measured by GDP,” said Richard Samans, managing director and head of global agenda at the World Economic Forum. “That could help them to pay greater attention to structural and institutional aspects of economic policy that are important for diffusing prosperity and opportunity and making sure these are preserved for younger and future generations,” he added.

European countries also continue to dominate the Global Talent Competitiveness Index issued also on Monday on the sidelines of the World Economic Forum in Davos. Published by business school INSEAD in partnership with the Adecco Group and Tata Communications, the Index puts 15 European countries atop the first 25 positions of its 118-country survey.

Launched for the first time in 2013, the GTCI is an annual benchmarking report that measures the ability of countries to compete in their ability to grow, attract and retain talent. Switzerland, the United States and Singapore top the ranking but Norway, Sweden, Finland, Denmark, the UK, the Netherlands and Luxembourg follow closely, filling the rest of the top ten position. Furthermore, eight of the top ten cities ranked are in Europe, with Zurich, Oslo and Stockholm topping the list.

Many of these countries have something in common: a well-developed education system providing the social and collaboration skills needed for employability in today’s labour market.

Talent champion countries have education systems that provide the skills the new labour market needs. That’s the case of Switzerland, which despite having a low number of bachelors has a very adaptable and diverse labour force.

The index this year focused on diversity. “Diversity is a crucial lever for innovation,” said Peter Zemsky, deputy dean and dean of innovation of INSEAD. “Today, fuelled by the explosion of information in the knowledge economy, exploiting local innovation opportunities is becoming more important for the competitive advantage of corporations than exploiting R&D at corporate headquarters,” he added.

In its fifth edition, the index highlights, however, that there is a cost to diversity: people are often ill-equipped to collaborate with others who are different from themselves, noted INSEAD professor and co-author of the report, Paul Evans.

Accelerating diversity is not easy. But the corporate world needs to jumpstart the switch and consider diversity more like an investment than a cost.

Pia Pakarinen, deputy mayor of Helsinki, which ranks fifth in the GTCI for cities, noted that inclusion and diversity go hand in hand.

“Diversity is natural in Finland,” she said, explaining that the country offers social mobility through education.

The other co-author of the GTCI, Bruno Lanvin, underlined that diversity is an untapped resource for innovation. “We are still not investing enough in diversity,” he added.

In the grand scheme, Europe has got it right, even though European social and labour policies are often the source of heated disagreement between EU member states.

The European economy still faces challenges in terms of low investment, youth unemployment and the social fracture growing across the bloc.

Last November, the European Commission projected the highest growth rates for Europe since the start of the financial crisis in 2007. The EU executive significantly revised upwards its forecast for 2017 and 2018, as more jobs were added. The unemployment rate in the EU is now at 7.3%.

But French President Emmanuel Macron and European Commission President Jean-Claude Juncker, who will both attend the meeting in Davos this week, are on the same page, at least on some social issues.
The global economy is growing faster than expected, fuelling CEO optimism as they arrive this week at the World Economic Forum (WEF) in Davos, Switzerland.

But the International Monetary Fund (IMF) has warned that the next crisis will hit sooner and harder than we thought.

“In seed time learn, in harvest teach, in winter enjoy,” said IMF Managing Director Christine Lagarde, issuing a warning by quoting British poet William Blake to describe the state of mind of businessmen and politicians in the world.

The global economy continues to beat previous forecasts. The Fund revised upward by 0.2% the growth expected for this year and next. In Europe, the IMF increased further its outlook by 0.3% in 2018 (2.2%) and in 2019 (2%).

But “complacency is one of the risks we should go against”, Lagarde told reporters in Davos hours before the official opening of the WEF.

The economy is growing but not because countries have lifted their growth potential via investment in human capital or technology. Instead, reforms have been elusive and growth has benefited just the few that are on top of the pile.

“We are not satisfied,” Lagarde insisted, because “too many people have been left out of the acceleration of growth”.

Against the backdrop of fragile growth and outstanding challenges, including a high level of debt, the Fund’s chief economist, Maurice Obstfeld, stressed that “the next recession will come sooner and will be harder to fight”.

Continued on Page 7
He warned political leaders that the economic momentum is due to factors that are “unlikely to last for long”, including the monetary stimulus and supportive fiscal stance.

For that reason, he urged countries to adopt measures aimed at improving the resilience of their societies in the fast-changing digital revolution and to improve the inclusiveness of their societies.

Obstfeld welcomed that an important number of European countries have implemented “important” structural reforms since the 2007/8 crisis, including Spain and Italy, while French President Emmanuel Macron promised “quite ambitious measures”.

**FISCAL CAPACITY**

Looking at the eurozone reform, he said that the completion of the banking union, with an European Deposit Insurance Scheme would represent a step forward, as it would be also the case of completing the economic and monetary union with a fiscal capacity.

Growing inequality and persistent uncertainty and instability on the planet will be overarching concerns at this year’s forum.

The incapability of traditional parties to better distribute economic gains led to the rise of anti-establishment parties and populist forces across the world. Donald Trump won the elections in the US appealing to those ‘left behind’ by globalisation.

But “a turn to more nationalistic or authoritarian governance models, however, could result in stalled economic reforms at home and a withdrawal from cross-border economic integration,” warned the IMF days before Trump’s arrival to Davos.

It is unclear even for business leaders how the buoyant economic situation has helped their societies.

**NOT BENEFITING ALL**

According to a global survey presented on Monday by consultancy firm PwC in Davos, 46% of CEOs of around 1,300 companies consulted believe that the world is registering a concentrated economic growth benefiting only a few people, while 48% described the economic growth as widespread.

The global president of PwC, Bob Moritz, told reporters that, regardless of what side they are on, CEOs are starting to become aware of the problem and “they are ready to take action”.

But despite persistent inequality and social unrest, the sense of urgency to act decreases as the world economy, in particular advanced economies, continues to improve gross domestic product (GDP) outlooks for the upcoming years.

A total of 57% of company presidents interviewed were confident about the global economy for this year, 28 points more than in 2017.

**THE FAILURE OF GDP**

For that reason, the WEF recommended on Monday to start looking at the economy in a different manner, to include indicators to measure not only what economies generate, but also the distribution of wealth and income, life expectancy, productivity, debt levels or unemployment levels.

“Decades of prioritising economic growth over social equity has led to historically high levels of wealth and income inequality and caused governments to miss out on a virtuous circle in which growth is strengthened by being shared more widely and generated without unduly straining the environment or burdening future generations,” according to Forum experts.

In a report published on Monday, the WEF blamed economists and policy makers for their “excessive reliance” on GDP.

CEOs surveyed by PwC agreed that financial indicators are not enough to create a true picture of the economic situation.

Financial indicators “cannot be the only measure of success in a globalised economy. Other, broader measures, reflecting target outcomes in societal terms, must also be considered,” said Moritz.

Obstfeld admitted that economists have struggled to measure wealth distribution. But he argued that GDP should remain as an “anchor”, completed by other indicators to reflect societal aspects or the environmental costs of productions.

“It is not possible to produce one single number to summarise people’s happiness,” he said.
US President Donald Trump told a room packed with corporate and political leaders in Davos on Friday (24 January) he was there to deliver a simple message: America is open for business and we are competitive once again.

India’s Narendra Modi opened this year’s World Economic Forum, launching a charm offensive to lure investors to his country, Trump ended the meeting in the Alpine resort with an equally down-to-business speech.

“There has never been a better time to hire, to build, to invest and to grow in the United States,” he said, stressing that growth is back and his government had enacted the necessary reforms such as cutting the corporate tax from 35 to 21% to boost the country’s attractiveness to foreign investors.

“America is the place to do business – so come to America where you can innovate, create and build,” he added.

Arriving in Davos on Thursday evening, the US president convened a dinner with 15 major European CEOs to urge them to invest in the US. On Friday, he related the meeting, saying the business titans were ready to pour money into the country.

Trying to balance his sales pitch with a more leader-like discourse he said: “As president of the United States, I will always put America First. Just like the leaders of other countries should put their countries first. But America First does not mean America alone.”

Continued on Page 9
CRAZY VS BORING

Timothy Snyder, an American historian and Yale University professor, told EURACTIV after the speech that there are two Trumps. “There is the crazy Trump and there is the boring Trump. This was the boring Trump,” he said.

Snyder explained that the speech contained the basics of America First, which means “the US wants all trading partners to play by our rules but then you don’t say what those rules are.”

The US president made the case for free and open trade, but “it needs to be fair and reciprocal.”

“The United States will no longer turn a blind eye to unfair economic practices, including massive intellectual property theft, industrial subsidies, and pervasive state-led economic planning,” he slammed, blasting “predatory behaviours” that distort global markets and harming businesses and workers around the world.

In a veiled criticism that seemed aimed at China, the US leader said he would enforce trade laws and restore integrity to the trading system.

TTIP AND TPP

He ostentatiously avoided talking about two major multilateral trade deals negotiated by his predecessor Barack Obama: the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP).

The Trump administration is also working on changing the North American Free Trade Association (NAFTA) agreement, which covers the US, Mexico and Canada, and is threatening to tear it up if not satisfied.

“The United States is prepared to negotiate mutually beneficial bilateral trade agreements with all countries. This includes the countries in TPP 11, which are very important. We have agreements with several of them already. We would consider negotiating with the rest, either individually, or perhaps as a group, if it is in all of our interests,” he said, opening up to the idea of multilateral agreements, to which he was totally opposed up to now.

That was the only sentence of the speech which was maybe positive, said Snyder, who confessed he was glad Trump came to Davos to get in contact with the outside world.

NATO AND THE EU

Trump reminded his Europeans allies once again that the US will no longer subsidise NATO.

“To make the world safer from rogue regimes, terrorism, and revisionist powers, we are asking our friends and allies to invest in their own defences and to meet their financial obligations. Our common security requires everyone to contribute their fair share,” he underlined.

Without reserve, he attacked the US immigration system as “stuck in the past.”

“We must replace our current system of extended-family chain migration with a merit-based system of admissions that selects new arrivals based on their ability to contribute to our economy, to support themselves financially, and to strengthen our country,” he said.

The crazy Trump resurfaced when he attacked the press, which prompted boos from the crowd.

“Where he is comfortable is praising other businessmen providing that he is number one. The one clearly authoritarian thing was attacking the press. He himself lies all the time and then he says the press lies,” Snyder told EURACTIV.
Dastis: ‘Not all our bold ideas for eurozone reform will be fulfilled’

By Jorge Valero | EURACTIV.com

Spain’s Foreign Affairs Minister Alfonso Dastis had to deal with a diplomatic crisis with Venezuela in the midst of an exclusive interview with EURACTIV in the margins of the World Economic Forum, where he said that concrete steps forward in the eurozone should be made by June.

When he sat down with EURACTIV for this interview over lunch, Venezuela temporarily recalled its ambassador from Spain to protest at Spanish interference in its domestic affairs. A couple of hours after the interview, Nicolas Maduro’s government expelled the Spanish ambassador in Caracas.

Venezuela was not the only item on the menu, as discussions on Catalonia, Spain-US relations and the future of Europe formed part of the interview.

Continued on Page 11
Alfonso Dastis was appointed Foreign Affairs Minister in 2016. Prior to that, the diplomat was Spain’s permanent representative to the EU.

Dastis spoke with EURACTIV’s Jorge Valero during the World Economic Forum in Davos (Switzerland).

You participated in a panel on Venezuela in Davos. What can be done considering that the solution depends on Maduro and the opposition?

We aspire to an agreement between the Government and the opposition. That is why we have supported the dialogue in the Dominican Republic, and we have put some incentives on the table from the EU to encourage the Venezuelan government to fulfill its promises [the reversibility of sanctions].

We have always said that the crisis in Venezuela is a question that Venezuelans must resolve. Then it is for the regional actors to contribute. We have always been willing and favorable to support in any role that we are asked.

The future of Europe was one the great issues during the forum. Are you optimistic that there will be concrete progress in June to push forward the economic and monetary union?

There must be some step forward in June, if we can count on France and Germany’s push, with the support of Spain and Italy. Naturally, we always strive to find consensus, and we will always have to make adaptations so that the largest number of states can agree with the proposals. But we must seize the opportunity this year, before the European elections next year.

What do you mean with ‘some step forward’?

I am referring to completing the banking union, turn the European Stability Mechanism into a European Monetary Fund. We made an ambitious proposal for the economic and monetary union. Unfortunately, I am afraid not all our ideas will be fulfilled.

Some require a treaty change. But surely there is a need to improve the governance and to provide the means to advance in an economic and monetary union. It is also important to progress with the reforms in the countries to achieve greater convergence among national economies.

The touchstone is to see how far we want to go is fiscal union. Is it too early to talk about that?

It’s not too early to talk about that. Another thing is whether it will move ahead. We believe it is important that this issue is on the table.

French President Emmanuel Macron reiterated during the forum the idea of a multispeed Europe. Is there a risk that this could bring more divisions in Europe, given the problems with Hungary and Poland, in addition to the difficult Brexit talks looming?

I have always said that we have to aspire to move forward with all the EU member states. But if that is not possible, we must always offer the possibility to advance more quickly to those who wish so, leaving the door open to the laggards to join.

That has never been excluded. In fact, it has been done in the past. Without making it the preferred option, it is an alternative at our disposal. And when the collective effort fails, we must see ways to continue advancing.

Is it not a return to two speeds? I thought this option was rejected when the president of the European Commission, Jean-Claude Juncker, warned about the danger of creating a new curtain in Europe.

We certainly have not changed our priorities, which is to advance first with 27 member states. If it is not possible, we have to find the means, including enhanced cooperation.

The ‘Spain brand’ was damaged after the financial crisis and now again with Catalonia. Have you perceived in the forum that the confidence in Spain has been restored?

‘Marca España’ was damaged, but now Spain is back with strength. On Tuesday night, I had a dinner about the role of emotions in politics. I thought they were going to ask me about Catalonia. But all that matters here is [Donald] Trump and the emotions in American politics. I notice that there is a significant decrease in interest [on Catalonial]. Everyone agrees that this issue has been addressed in a satisfactory manner and that it will be resolved within the framework of the rule of law and respect for the Spanish Constitution.

What message do you expect Trump will bring to the Davos audience?

The same message he has repeated: ‘America first’. This year we have seen that one of the things he has shown publicly is that he does what he says.

Have Spain-US relations worsened since he arrived to the White House?

With Spain certainly not. The economic relations continue smoothly, also those of security and political exchanges. The meetings have continued at a normal pace. When we visited the White House with President Mariano Rajoy, we were treated very well. We have not observed a change for the worse in the

Continued from Page 10

Continued on Page 12
bilateral relations, I would even say it slightly improved.

**Why?**

It is clear that Mr. Trump gave President Rajoy a better reception than Mr. Obama gave him in the White House. I have had several exchanges with Secretary of State Rex Tillerson. The Minister of Defense also with her American colleague. I believe that the situation of our economic relations is constantly improving. You have to make a distinction between ...

**Trump’s twitter account and his Administration?**

More or less.

**Spain’s Ministry of Economy takes for granted that the ECB vice-presidency will be for Spain.**

I also say that.

**Will Minister of Economy Luis de Guindos be our candidate? When will President Rajoy put forward the name?**

I don’t know that. But I know that the post must go to Spain and I trust that it will be the case.

**If this is not achieved, it would be a new setback for Spain, after losing the chair in the Executive Board of the ECB, the presidency of the Eurogroup and the European Medicines Agency.**

But we are going to get it. Never in this life can you be 100% sure, but it falls within the logic. It is consistent with the situation of the Spanish economy and its relative weight in the eurozone. I cannot think of arguments against it.

**Does the under-representation of Spain in the EU’s top post also helps?**

I do not think we are underrepresented. In all the institutions we have people.

**But considering we are the fourth economy of the eurozone, if we compare ourselves with Italy ...**

We have a commissioner as they have the High Representative. It is a commissioner position with another responsibility, but perfectly equivalent, with a portfolio which is surely one of the most important nowadays in the Commission. We have four director-generals in the Commission, another one in the Council. We lead the European Defense Agency. We have one Deputy Secretary-General in the EU External Action Service.

**Is that comparable to the presidencies of the European Parliament and the ECB, and the EU’s high representative, as the Italians do?**

If one compares it in quantitative terms, yes.
Optimism dominated the World Economic Forum (WEF) which concluded last week, despite lingering doubts about the EU’s integration process and risks affecting the global economy.

Europeans arrived with renewed confidence in Davos this year, after a long period flying below the radar screen at the forum.

Europe suffered like no other region from the global financial crisis that hit just over ten years ago. Two recessions and seven state bailouts turned the EU into a source of concern for the global system. The risk of Greece leaving the euro and the UK’s departure from the bloc prolonged Europe’s agony in recent years.

But this year, the message was loud and clear: “Europe is back”. At the center of this renewed sense of optimism is the positive economic momentum and a political situation that looks better compared to last year, despite the complicated Brexit negotiations and risky elections in Italy next March.

“The optimism about the situation in Europe is one of the issues that I picked from this edition,” former Swedish prime minister Carl Bildt told EURACTIV.

EU budget commissioner Günter Oettinger was under the same impression: “Two years ago, or even last year, there were many questions about whether Europe would remain united after Brexit. But now what I have perceived is high expectations about its future. I got a positive impression,” he told this website.

These hopes are linked to the ability of EU leaders to carry out the reforms necessary to strengthen the eurozone.

Continued on Page 14
Continued from Page 13

But doubts remain about the likelihood of achieving concrete results over the next few months.

“It will not happen,” the prime minister of one of the most skeptical governments told EURACTIV on condition of anonymity. In his opinion, the Brexit talks and the lack of reforms in some countries are the major obstacles.

Paul Sheard, executive vice president and chief economist at Standard and Poor’s, pointed out in the corridors of Davos that there is a “narrow window of opportunity” to achieve results, or at least to lay the basic political groundwork, so Europeans can be consulted in next year’s elections on a mandate to progress on eurozone reform.

Lithuanian President Dalia Grybauskaitė said some member states are “afraid” of more integration. During one of the panels, Grybauskaitė and former Commission President José Manuel Barroso (who is on the payroll of Goldman Sachs) had a long discussion about French President Emmanuel Macron, the political future of Angela Merkel and the future of Europe.

NO WORRIES

The optimism about the world economy was even stronger.

Spurred by the IMF’s improvement of the growth forecast for the next two years, the elite broadly shared a bright reading of the global outlook.

“I have heard that the main concern is that people are not worried,” joked Mary Callahan Erdoes, head of asset and wealth management at JPMorgan Chase.

“But we should not feel bad for not being worried,” she told one of the panels in Davos.

For the IMF, complacency is the worst enemy at this stage, because vulnerabilities remain.

A significant number of participants agreed that there is a bubble in asset prices, and that sooner than later markets would adjust.

The question is whether this adjustment will shake the entire financial system, and ultimately affect the real economy.

“Some people are interested in predicting the next crisis as doomsayers,” Nobel laureate in economics and professor at the London School of Economics, Christopher Pissarides, told EURACTIV.

He agreed that there would be “a small correction in the markets,” but said it won’t pass on to the whole system.

“We must differentiate between the economic cycle and underlying structural problems, and I do not perceive huge imbalances, except in the case of China,” said Sheard.

For the Governor of the Bank of England, Mark Carney, the financial system has been sufficiently bolstered with capital provisions in this post-crisis period.

“Probably” there will be an adjustment in the markets, but the probability that this adjustment affects the core of the financial system is “quite low”, he said during one of the panel discussions.

A CRISIS ON THE HORIZON

But many voices considered that the next recession is already on the horizon.

Founder and president of Bridgewater, Ray Dalio, and Min Zhu, president of the National Institute of Financial Research in China, and former senior IMF official, agreed that the probability of a recession in two or three years was “high”.

PwC global president Bob Moritz noted in an interview the disconnection between “the big risks” and the buoyant market situation.

Among these risks, some worry about the high indebtedness in the planet. But for Pissarides the levels have not reached yet the red zone.

“The biggest danger is that people do not think there will be a financial crisis in one or two years,” said David Rubenstein, co-founder and co-chair of The Carlyle Group.

For some, the question is rather what may be the trigger of the next financial collapse.

A clumsy exit from the expansive monetary policy, geopolitical risks and China top the list.

Central banks, heroes in the worst episodes of the crisis, could become villains if they rush to withdraw the monetary stimulus and to rise interest rates.

“When you drive at high speed on the highway, you need to be especially careful,” said the ECB Executive Board Benoît Coeure. “We will be prudent,” he added during a debate.

Consumption and investment would be affected when the era of ‘cheap money’ comes to an end. The effects could be amplified if confidence falls due to a new conflict in the world.

For Axel Weber, UBS Group AG Chairman and former president of the Bundesbank, geopolitical risks have even a “greater potential” to disrupt the global economy than a sudden change in interest rates.

Against this backdrop of market bubbles, debt, unchartered waters in monetary policy and geopolitical risks, the IMF, the OECD and the ECB urged countries to roll up their sleeves and continue reforming their economies and regaining fiscal space.

Education and life-long learning appear on top of the list of reforms. Not only because these measures would equip citizens to navigate in a more unstable world of work, but also because they would help to reduce inequality, one of the big challenges the world faces today.

If “fundamental reforms to market capitalism” are not carried out, human development is “at risk”, warned the forum.