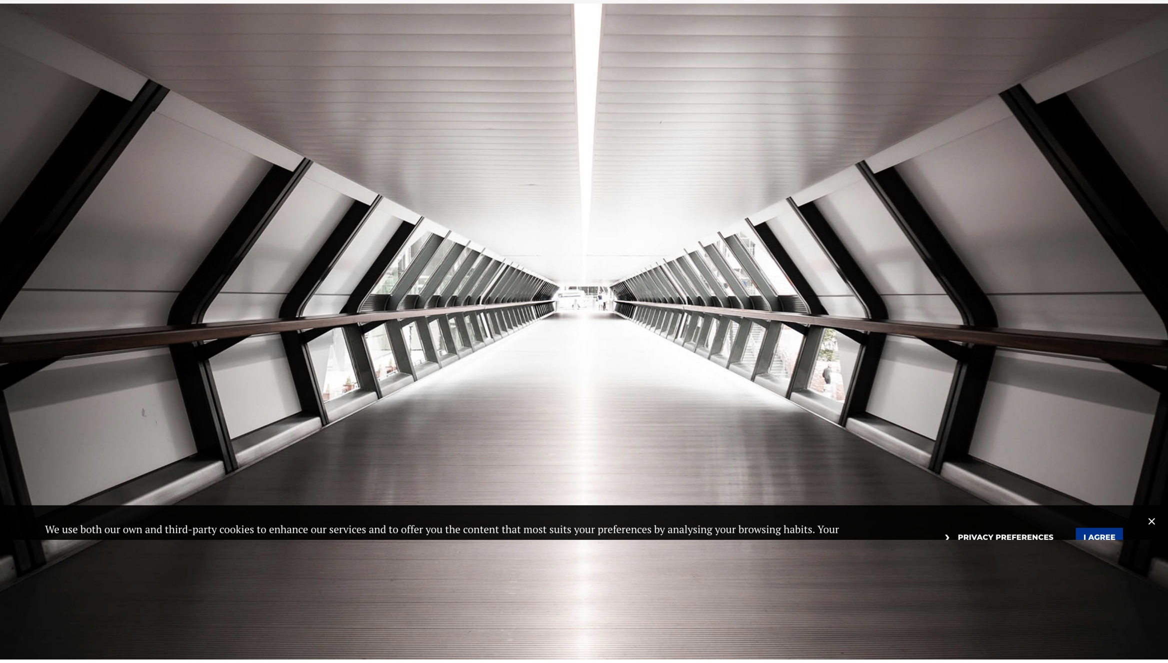


We use both our own and third-party cookies to enhance our services and to offer you the content that most suits your preferences by analysing your browsing habits. Your
PRIVACY PREFERENCES I AGREE

Home > Articles > The Future Is Upon Us

MARCH 16, 2020

THE FUTURE IS UPON US

FACEBOOK TWITTER LINKEDIN EMAIL

COMPETITIVENESS & GROWTH | FINANCE & CONTROL | GLOBAL AFFAIRS & LAW | SMART SOCIETY | STRATEGY | TECHNOLOGY

SHOW SUMMARY

A growing body of evidence points to a future where we must abandon obsolete technologies and production processes, adopt cleaner and more efficient alternatives, and redesign the entire economy in order to prevent a climate emergency. This is a technological problem: the very technologies that have made us healthier, wealthier, and longer-lived must now be replaced by sustainable alternatives. But how can we change a system that is widely viewed as successful? How can we accelerate a crucial transition that is taking far too long?

Nowadays, only idiots, ignoramuses, and conspiracy theorists deny the existence of climate change. Hundreds of national governments have acknowledged the climate emergency. What, then, are we doing wrong?

Ten percent of the global population lives in regions affected by the climate emergency. Australia—a country led by flagrant climate deniers—is burning like never before. And studies have reliably shown that eliminating coal from the energy mix saves lives. The evidence is mounting all around us. So why do politicians the world over continue to behave as though we were not facing an emergency? Why hasn't Australia faced the sort of international political pressure that was leveled at Brazil when the Amazon was on fire? Why haven't we banned the use of coal worldwide? What prevents us from reacting to the greatest threat ever faced by humankind? What stops us from addressing this existential crisis?

> *The very technologies that have made us healthier, wealthier, and longer-lived must now be replaced by sustainable alternatives.*

An obsolete economic system

The answer is as clear as it is depressing: the excruciating slowness of the transition towards clean, renewable systems can be traced directly back to our economic system. By twisting and misinterpreting the words of prophets like Adam Smith and Milton Friedman, the neoliberal capitalist system has self-immolated, giving rise to a wholly unsustainable model characterized by soaring inequality and an utter lack of shared responsibility.

Viewed through the lens of history, however, capitalism has worked reasonably well. It has produced strong economic growth, increased well-being significantly, lengthened the human lifespan, improved living conditions, and generated numerous other positive effects that seem obvious if you compare today's society with that of one or two centuries ago. Capitalism has also done decidedly better than the alternative systems.

However, the success of capitalism is actually the main problem: nothing is more difficult than changing a system that works well. But our current economic system is not just obsolete; it is leading us into a crisis that threatens the very existence and viability of human civilization on our planet.

What makes our economic system obsolete? As Internet-based technologies have brought transaction and coordination costs down to the lowest levels ever seen, an unlikely suspect has emerged as history's most innovative ecosystem: open-source development communities. These loosely coordinated groups of developers are behind most of the software we use today: search engines, smartphone apps, social networks, and the programs fueling the great scientific advances of our time. Open source has proved beyond doubt to be the best development system history has ever seen—and far superior to secretive competition-based systems.

The global economy, in contrast, is still based on closed systems. Equipped with total or near-total sovereignty, these entities—which we call *countries*—are free to choose whatever competitive strategy they think will help them outrun their neighbors. But what, exactly, are they running towards? If we continue along our current path, we'll end up like lemmings—running off the edge of a cliff. Anyone can see that the system does not work: virtually all multinational companies—not just tech firms—have figured out how to pay an effective tax rate of less than 3% or 5%.

> ” *Nothing will really change if we do not change our economic system.*

The need for change at all levels

We can talk all day about tax inequity, environmental irresponsibility, and even humanitarian atrocities, but the real problem is the economic system. It is a system that sanctifies national sovereignty and utilizes trivial, superficial, and frankly absurd metrics such as gross domestic product (which, to paraphrase Robert F. Kennedy, measures everything except that which makes life worthwhile) and job creation (what will we do when most jobs are simply unnecessary?). Moreover, there is no central organization capable of exercising real authority. Think of the recent global climate conferences, which have yielded ever more disappointing conclusions and proved incapable of generating any real, effective action. Most participants attend begrudgingly, producing nothing but lies and nonsense. The organizers, meanwhile, are incapable of enforcing any sort of discipline.

When we talk about the need for change in order to prevent an emergency recognized by the entire global community of climate scientists, we miss a key point: nothing will really change if we do not change our economic system. And changing our economic system will require changes so profound that many people will dismiss them as impossible.

But they are not impossible, for two reasons. Firstly, we now have a new generation of better informed citizens who are more engaged, less distrustful of science, and well equipped to "vote with their feet" in terms of what they consume and how they behave. We need many more Gretas, many more leaders willing to do anything to effect change. Secondly—and not merely because this article is being published by educational institution—we have to acknowledge the ripple effect of education. We must stop transmitting antiquated knowledge and help to develop and accelerate this much-needed change. So much is at stake.

© IE Insights.

ABOUT THE AUTHOR

ENRIQUE DANS

PROFESSOR OF INNOVATION AT IE BUSINESS SCHOOL, SENIOR ADVISOR FOR INNOVATION AT IE UNIVERSITY, AND AUTHOR OF 'VIVIENDO EN EL FUTURO', PUBLISHED BY PLANETA (DEUSTO)

MARCH 11, 2020

INTERNATIONAL TRADE: FROM TARIFFS TO STANDARDS

FACEBOOK TWITTER LINKEDIN EMAIL WHATSAPP

FINANCE & CONTROL | GLOBAL AFFAIRS & LAW | STRATEGY

SHOW SUMMARY

The focus of international negotiations has shifted notably as the use of tariffs as a protectionary measure has declined. Trade agreements are now vehicles of geopolitical strategy that go beyond mere trade liberalization. From multilateralism to bilateral agreements; from tariffs to the adoption of standards.

The broad consensus on the benefits of free trade dates back to the time of economist David Ricardo. According to Ricardo's theory of comparative advantage, countries should focus on what they are most efficient at producing and export these goods or services to other nations. It is more profitable for countries to concentrate on the sectors where they have the most experience and capacity for success. This increased profitability, in turn, leads to greater economic well-being across the globe.

According to this theory, restrictions on the exchange of goods and services—trade barriers and tariffs—actually make consumers poorer by forcing them to shoulder most of the costs of protectionism.

Despite the benefits of free trade, the political reality is quite different. Each country has its own preferences and ideas about how to organize its economy and its social and redistribution policies. Indeed, states have many substantial reasons for imposing restrictions on free trade.

The more complex question is precisely how to do this, since it involves striking a balance between meeting domestic needs and respecting the international framework prescribed by the World Trade Organization (WTO).

> *The focus of international trade negotiations has shifted to standards of regulation and production of goods and services.*

Multilateral negotiation

With the adoption of the General Agreement on Tariffs and Trade (GATT) in 1947, the global community signaled a growing desire for free trade and established a set of rules that would govern all international transactions.

The founding of the WTO in 1995 further confirmed this idea. With a current membership of nearly 170 countries, the WTO is responsible for establishing a common framework for relations among member states.

The key principle of the WTO is non-discrimination, which requires that states extend equal treatment to domestic and foreign operators.

Member states are free to design domestic trade policies and establish tariffs as a protectionary measure. However, in order to guarantee legal and economic certainty, once a tariff has been established, WTO member states are legally obliged to apply it to imports from other WTO members, except under exceptional circumstances.

Tariffs remain a reality, although at present they are relatively low—under 3%, on average. As tariff rates have decreased, the focus of international trade negotiations has shifted to standards of regulation and production of goods and services.

However, it is not easy to adopt such standards multilaterally. In fact, new rules are increasingly being negotiated and established bilaterally or regionally among countries that share a similar outlook, since it is easier to reach agreements this way. In terms of international trade, this approach carries the risk of fragmentation and the emergence of multiple regimes around the world.

> *Countries enter into preferential trade agreements for reasons beyond mere trade liberalization.*

Preferential trade agreements

If WTO members are expected to follow the principle of non-discrimination, how have nearly all countries managed to adopt more beneficial trade agreements with certain trading partners?

Theoretically, preferential trade agreements (PTAs) are only possible under exceptional circumstances and must meet certain conditions. For example, countries are not allowed to liberalize only the trade of certain goods; agreements must instead substantially encompass all exchanges between the signatory countries. In reality, however, all WTO member states have at least one PTA, most have more than one, and not all of these agreements comply with the WTO's conditions.

There are various types of PTA, each with a different degree of economic integration. The lowest level of integration is achieved by a free trade area, where several countries mutually agree to limit or eliminate the barriers between them. One example is the North American Free Trade Agreement (NAFTA) in the United States, Canada and Mexico.

The next level of integration is a customs union, where, in addition to liberalizing trade, members adopt a common foreign trade policy by applying the same tariffs to third countries and eliminating tariffs on one another. One example is MERCOSUR, a customs union formed by Argentina, Brazil, Uruguay Paraguay and Venezuela.

The highest—and deepest—level of integration is a single market, where, in addition to adopting the same tariff system, member countries allow freedom of movement for resources, capital and workers. The European Union is a case in point.

Countries enter into PTAs for reasons beyond mere trade liberalization. Indeed, these agreements have become vehicles of geopolitical strategy. Powerful countries use them to obtain greater regional influence and get other countries to adopt their regulation and production standards.

Despite the limitations of the global framework and efforts by some countries to limit the WTO's influence, this organization provides a system of rules that apply to all economies, whether large or small. The trend away from multilateral negotiations in favor of bilateral agreements not only runs the risk of fragmentation but also prevents smaller and developing countries from gaining access to certain markets.

In addition to these challenges, the trade war between the United States and China and the uncertainty surrounding the new relationship between the United Kingdom and the European Union are sources of significant anxiety for the international community.

© IE Insights.

ABOUT THE AUTHOR

JOHANNA JACOBSSON
PROFESSOR AT IE LAW
SCHOOL

WOULD YOU LIKE TO RECEIVE IE INSIGHTS?

Sign up for our Newsletter

NEWSLETTER SUBSCRIPTION

RELATED CONTENT

We have to be able to adapt to new environments by having a positive attitude and an open mind and believing it is possible.

NATHALIE PICQUOT

CEO OF TWITTER SPAIN, SPEAKING AT IE

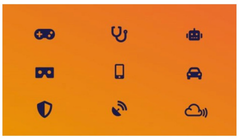
INNOVATION

06 / 03 / 2020

NEW SKILLS FOR NEW CHALLENGES IN THE LEGAL PROFESSION

COMPETITIVENESS & GROWTH | GLOBAL AFFAIRS & LAW | TECHNOLOGY

WATCH



04 / 03 / 2020

HOW 5G WILL CHANGE YOUR BUSINESS

INNOVATION | SMART SOCIETY | TECHNOLOGY

DISCOVER

The power of teams increases because of diversity.

PEDRO POLO

CEO OF MERCER SPAIN, SPEAKING AT IE

28 / 02 / 2020

SOMETHING'S HAPPENING IN GHANA

COMPETITIVENESS & GROWTH | ENTREPRENEURSHIP | INNOVATION

WATCH

27 / 02 / 2020

QATAR: DRIVING INVESTMENT AND ENTREPRENEURSHIP

COMPETITIVENESS & GROWTH | ENTREPRENEURSHIP | INNOVATION | TECHNOLOGY

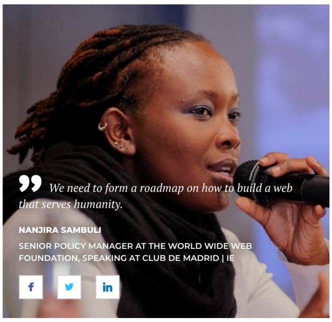
LISTEN

26 / 02 / 2020

THINKING POSITIVELY

HUMAN BEHAVIOR | STRATEGY

DISCOVER



We need to form a roadmap on how to build a web that serves humanity.

NANJIRA SAMBULI

SENIOR POLICY MANAGER AT THE WORLD WIDE WEB FOUNDATION, SPEAKING AT CLUB DE MADRID | IE

LATEST NEWS

VIEW MORE INSIGHTS