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Co-founder of the Genesis Prize Foundation, Mikhail Fridman. (Photo by: GENESIS PRIZE FOUNDATION)

Perspectives of the world economy in the era of unprecedented individual creativity

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Genesis Prize founder Mikhail Fridman discusses the world economy.

One of the wealthiest businessmen in Russia, global investor, Jewish philanthropist, founder of the Genesis Prize Mikhail Fridman offers his view on perspectives of the world economy in the era of unprecedented individual creativity.

Something strange is happening to our world. The basic principles, rules and values that have long served as the foundation for our lives are falling apart. Fragility and instability are spreading like a virus, infecting countries and continents. Those who only yesterday were on the margins of European politics are bursting onto center stage. Some are left-leaning, like Syriza in Greece and Podemos in Spain. Some are right-leaning, such as the National Front in France, Fidesz in Hungary or AfD in Germany. But all are populist and anti-establishment. And it is not just Europe that is being shaken up.

The United States of America, which was built on the principles of free markets and openness, is rallying to presidential candidates who are either propagating socialist views or arguing for isolationism. This populist advance reflects an obvious and sad fact: Old and tested truths no longer satisfy modern societies and need to be reviewed and redefined.

The economic outlook is also unstable. Extreme volatility in the markets has become the norm. This instability is usually attributed to two main factors: the sharp decline in the price of natural resources and the slowing of China's economic growth. These two factors are actually contradictory. Cheaper resources should, in theory, benefit China, the largest importer of natural resources. Western economies, which are the main consumers of Chinese exports, should also be helped by cheap energy, but there is no sign of that either.

Volatility in politics and markets is a sign of a major tectonic shift that is happening before our eyes.

We are entering a disruptive era driven by extraordinary levels of human creativity. A new generation of curious, strong-willed and talented individuals is unhindered by convention or the past. This new "Indigo" generation is now shaping tomorrow's economy and creating national wealth. I use the term Indigo because it has been used to refer to children with special or unusual abilities. This is an era where abnormally talented individuals and entities are now able to realize

new levels of human potential and economic achievement.

How is the Indigo era different?

Over thousands of years, human history has been defined by the struggle for access to natural resources, or to put it simply, for land that contains those resources. Whether it is fertile soil, access to trade routes, gold, minerals, or oil and gas, land has always been a primary source of national wealth. The sanctity of national borders, which is the cornerstone of national identity, is a reflection of that idea. Fear of shortages has created cyclical bubbles in commodity markets and has inspired Hollywood thrillers about the war for oil and gas. It seemed that sooner or later the economy would run out of something essential for its growth. Yet every time these bottlenecks – be they in rubber, Indian spices or conventional oil and gas – were resolved by finding an alternative.

This new Indigo era undermines the hypothesis that depletion of natural resources is imminent. The innovative potential of developed countries has allowed people to find alternatives to any such shortage. This does not mean that the world no longer requires natural resources. But it eliminates the real or imagined shortage of those resources and deprives commodity exporters of what have been super profits. Oil and gas was the last bastion of these bottlenecks and it too has crumbled, thanks to Indigo economies.

The main source of national wealth is not the resource rent but the social infrastructure that allows every person to realize his or her intellectual and creative potential. It is for this reason that Exxon, once the world's largest company, has been overtaken by Apple and Google. This represents a paradigm shift in which creative, non-linear thinking and random ideas are turned into new scalable services in a short space of time.

Requirements for developing an Indigo economy

World-leading firms such as Apple and Google have introduced revolutionary changes in business through innovation. So let's call them Indigo companies.

One can see three main interconnected factors that have led to their achievements.

The first requirement is intuitive individual talent and a high level of education. The originator of an idea has to be not only creative but also well-educated and able to form a team of equally educated and gifted people.

Second, to realize an idea, even the brightest innovator needs the cushion of a "cloud," a sophisticated infrastructure for doing business. This includes a legal system that can protect both physical and intellectual property rights and a competitive environment that allows small companies to turn into giants without fear of being swallowed by larger companies at their initial stages.

The ecosystem of an Indigo economy requires thousands of suppliers and subcontractors that can provide competitive, high-quality services ranging from venture financing to marketing and Web design. This cloud of available services allows users to benefit from all these technologies without the need for deep knowledge or expertise from any of them.

Third, a global digital infrastructure is needed to distribute new products and also to accumulate customer data and new levels of insight. This enables the Indigo generation to understand customer behavior and to create new services even before there is a demonstrated demand.

How easy will it be to replicate this Indigo ecosystem?

The global digital world already exists, and the Internet and cellular networks are reaching the

most remote corners of the world.

We know from biology that human intelligence, talent and creativity exist everywhere and are equally distributed among all nations and races. Good education is not available everywhere, but all large developing countries have serious universities. Moreover, people from these countries have a chance to study abroad or take online courses provided by the world's best universities. The most problematic area for the functioning of the Indigo economy is the creation of the "cloud" as well as the social and institutional environment that is congenial to innovative companies. The "cloud" cannot be built overnight. It has evolved as a result of a profound social and political development that Western societies have experienced over centuries. A firm legal system, competition rules and a system of checks and balances do not automatically result in the creation of a Silicon Valley. Nonetheless, the West has the best conditions for making breakthroughs in different spheres of human activity, be it biotechnology, robotics, logistics, or transportation. (Full disclosure: I recently invested \$200 million in Uber.)

It is also clear that countries lacking Indigo-friendly infrastructures are disadvantaged. The creation of a balanced social system and a competitive, rule-based environment requires some shifts in values and thinking as well as the breaking of stereotypes.

How Indigo will influence the world economy

The past few decades have been characterized by globalization and economic cooperation between the developed world and emerging countries. Emerging nations exported commodities and cheap labor to the developed world and used the proceeds to build roads, airports, cities and logistic centers. This has produced new jobs and attracted foreign investment, which, in turn, boosted the growth of a modern middle class.

Governments typically favored fast physical infrastructure projects at the expense of building institutions, independent legal systems and encouraging competition. These seemed like long and difficult tasks that did not match traditional values and often contradicted the interests of the ruling elite. The most obvious example of this approach was China.

China, where the development of institutions was sacrificed for the sake of building new cities, has already run into difficulties trying to build an Indigo economy. Having realized the scale of problems related to the weakness of its institutions, the government has responded in its usual way: employing its usual tactics of further centralization and repression.

With the possible exception of India, a repeat of China's economic miracle or another emerging markets boom is unlikely. Economic growth in emerging markets will slow down as a result of shrinking natural resource revenues and a decline in people's incomes. The chances of these countries pulling themselves out of corruption and protectionism are remote.

This means that the rate of economic growth in emerging markets will increasingly lag behind that of the developed world, further widening the gap in incomes and standards of living. The mutual resentment driven by the inability of emerging markets to catch up with the developed world will increase. Emerging countries are likely to feel increasingly jealous and hostile toward rich countries while rich countries will try to isolate themselves from their poorer and embittered neighbors. This could heighten the tension in international affairs.

A few years ago, globalization contributed to the narrowing of the gap between emerging markets and the Western world. Now it could be used as a channel for selling the products of Indigo economies to the countries that cannot compete in quality or price. Heightened resentment and tension could further empower political populists who exploit the feelings of fear, jealousy and inability to change one's circumstances to fan hatred toward the more prosperous and successful, and a desire to destroy their riches. These populist politicians are already among us, promising simple solutions to complex problems. It is a dangerous recipe.

But there is also a ray of hope

For two-and-a-half centuries, it has been apparent that successful societies depend on having the rule of law, fair competition, and citizens' basic rights. The U.S. was formed on this basis. As a student in the Soviet Union, I once explained the benefits of the socialist economy which, in contrast to the chaos of capitalism, could plan precisely how, when and in what quantity any goods had to be produced. The only problem was that these arguments were accompanied by endless lines for fast-disappearing food in shops. As a result, the socialist economic theory did not inspire much confidence in my listeners.

Nonetheless, the short-term economic successes of authoritarian and totalitarian regimes create a longing for a "strong hand," which can compel people to sacrifice their civil liberties for the benefits of economic security. But even in theory, one cannot build an economy based on the creative energy, free spirit and self-fulfillment of millions of individuals if they are cut off from making the most important decisions about their own society. I hope that the era toward which we are heading will finally end these dangerous misconceptions. The future Indigo economy is an economy of free people. And this means that the world will become more and more free.



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