



The world economy to 2030

Martin Wolf, Chief Economics Commentator, Financial Times

CSAV “Global Trade Day” Conference

7th October 2022

Santiago de Chile

The world economy to 2030

There is special providence in the fall of sparrow. If it be now, 'tis not to come; if it be not to come, it will be now; if it be not now, yet it will come. *The readiness is all.*”

Hamlet, Shakespeare

The world economy to 2030

1. Understanding uncertainty
2. The (almost) certain
3. The probable
4. The possible
5. The immediate
6. Conclusion

1. Understanding uncertainty

1. In 1980, few thought the Soviet empire would disappear within a decade
2. In 1990, few thought China would be a superpower by 2020
3. In 2000, few thought there would be a transatlantic financial crisis within a decade
4. In 2010, few thought the next huge economic crisis would be a pandemic
5. In 2020, few thought a pandemic and a major war with huge implications for oil, gas and food would break out within two years
6. Our understanding of the future is inherently limited

1. Understanding uncertainty

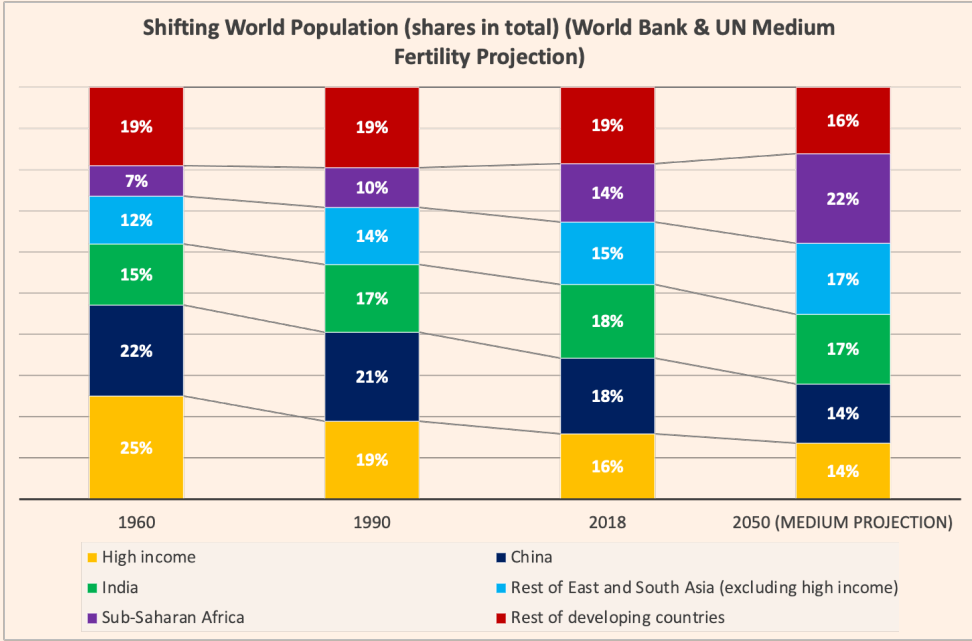
- Nevertheless, we do know something about the future:
 - We know some important long-term processes – the “almost certain”
 - We know some things that are quite likely to occur – the “probable”
 - We know a list of events, one (or more) of which is quite likely to happen quite soon – the “high-impact possible”.
 - We know what is happening right now, though we might not know how it ends.
- Big “surprises” are normal. The absence of surprises is abnormal.

2. On the almost certain

1. Demography
2. Climate
3. Technology
4. Economic growth
5. Strategic competition

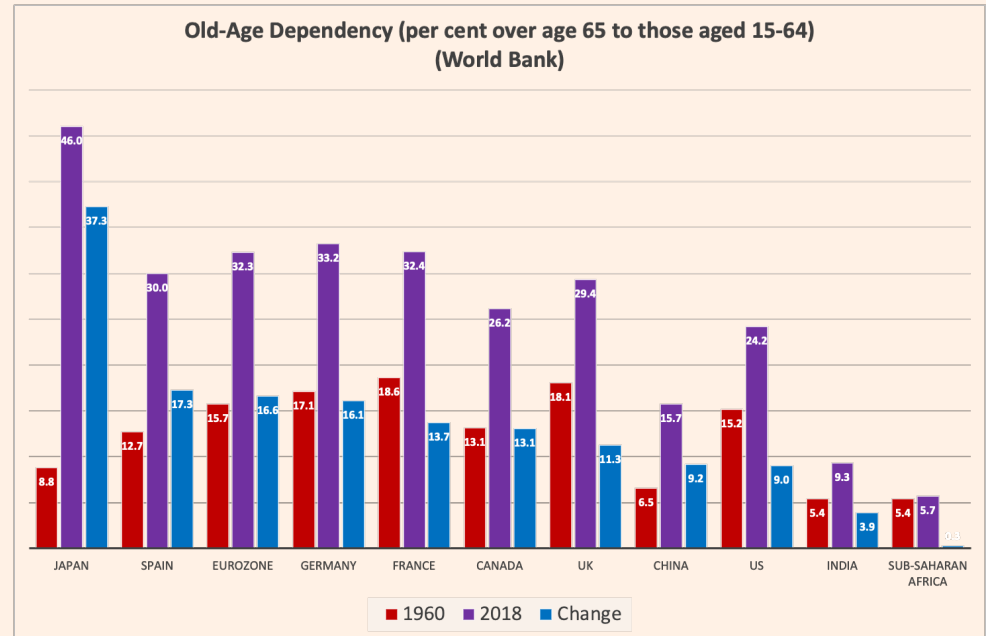
2. The almost certain: the great demographic shift :

The population balance of the world is shifting dramatically, away from the high-income countries, especially towards Sub-Saharan Africa.



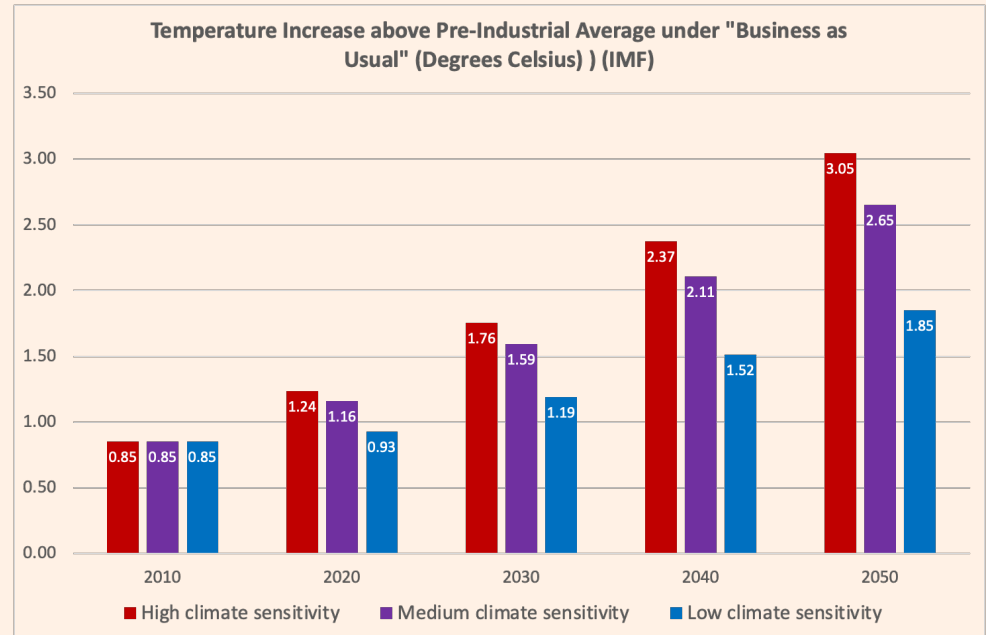
2. The almost certain: demography

The world's rich countries are old and getting older, very quickly. The same is happening to China. But Sub-Saharan Africa will remain very young.



2. The almost certain: warming

Without a big and early transformation in the trend on emissions, warming will continue over the next decade. In all likelihood, we will pass the 1.5°C increase over the pre-industrial average in 2030 or shortly thereafter.

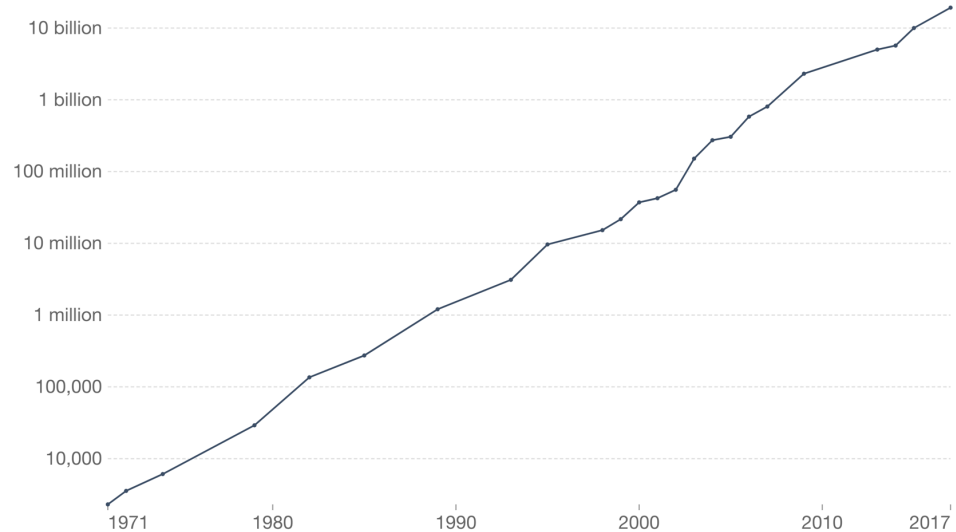


2. The almost certain: technology

The underlying engine of information technology has been Moore's Law. The outcome of half a century of exponential progress has been staggering

Moore's Law: The number of transistors per microprocessor

Number of transistors which fit into a microprocessor. The observation that the number of transistors on an integrated circuit doubles approximately every two years is called 'Moore's Law'.



Source: Karl Rupp. 40 Years of Microprocessor Trend Data.

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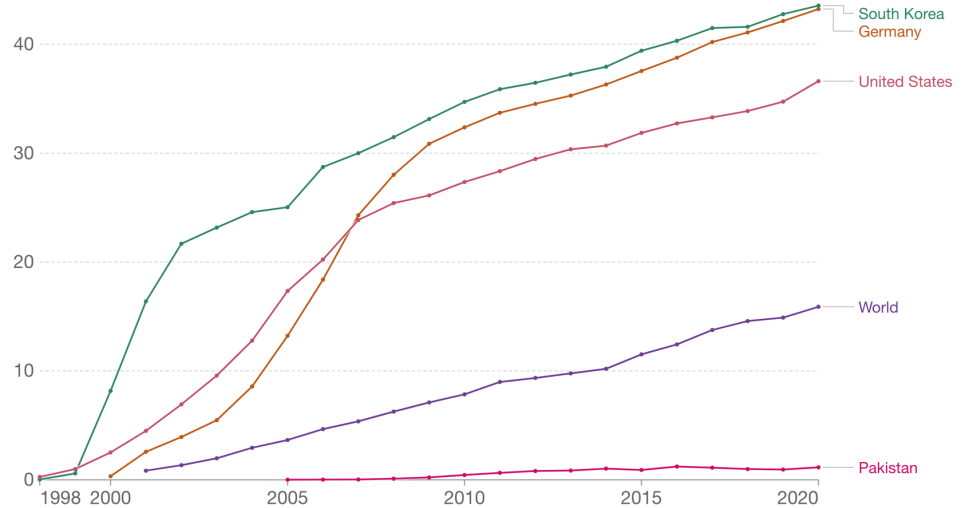
2. The almost certain: technology

Broadband penetration will continue to rise, transforming everything, as artificial intelligence will also improve

Broadband subscriptions per 100 people, 1998 to 2020

Broadband subscriptions refer to fixed subscriptions to high-speed access to the public Internet (a TCP/IP connection), at downstream speeds equal to, or greater than, 256 kbit/s.

Our World
in Data

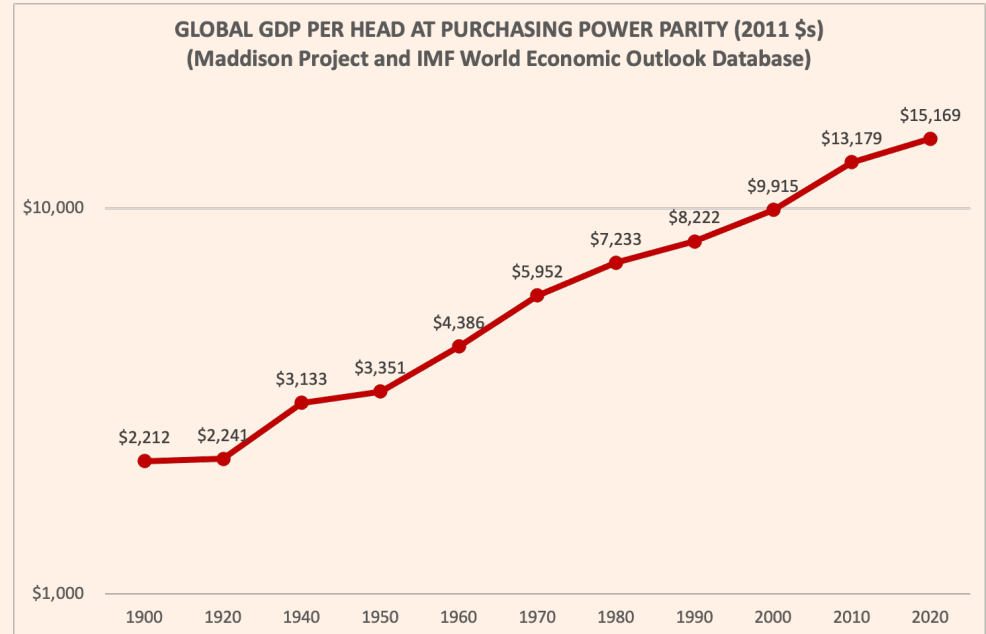


Source: International Telecommunication Union (via World Bank)
Note: For more details on the definition see the sources tab.

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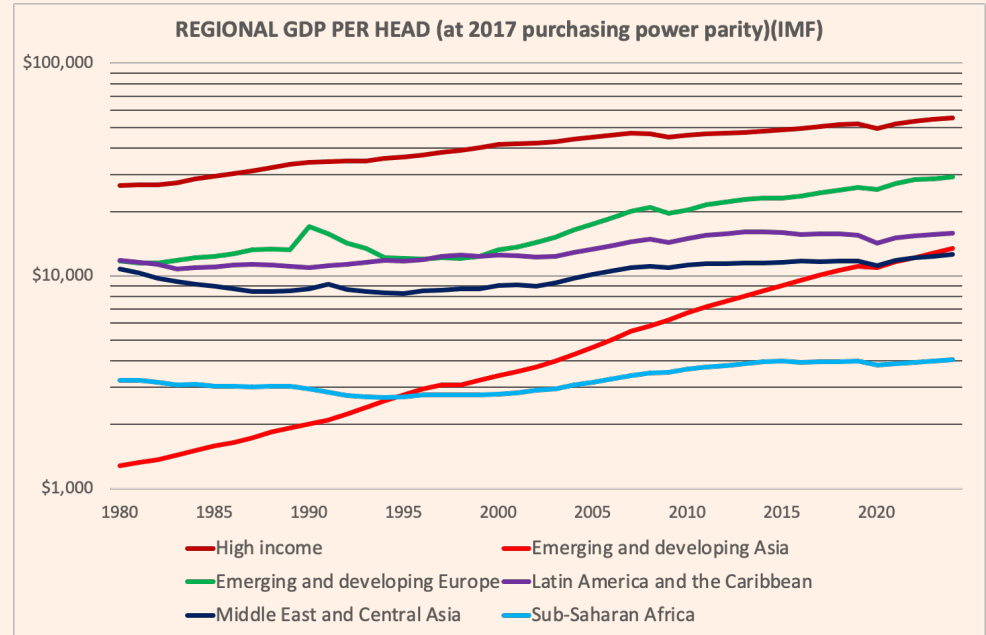
2. The almost certain: economic growth

Global average gross product per head has risen every decade since 1900, though the world wars and the great depression slowed the progress.



2. The almost certain: economic growth

The biggest story has been the growth of emerging and developing Asia. This “region” contains half of humanity. This growth will surely slow. But will it stop? Very unlikely. It has huge catch-up potential still.

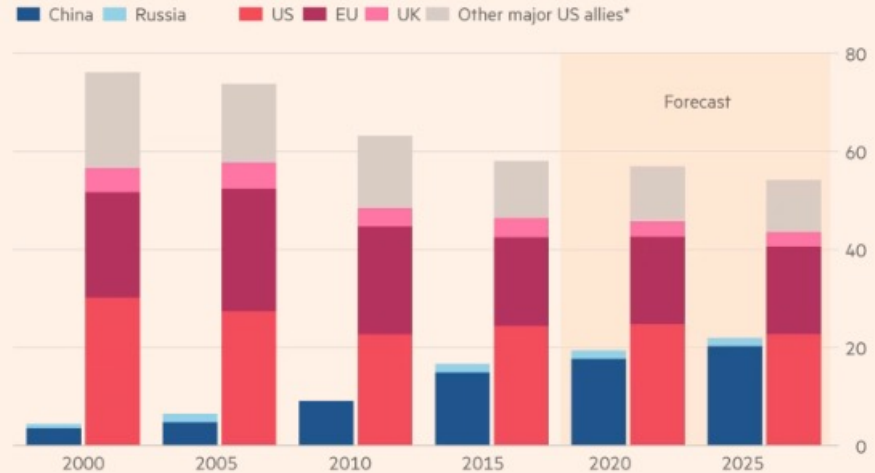


2. The almost certain: strategic competition

The biggest story has been the growth of emerging and developing Asia. This “region” contains half of humanity. This growth will surely slow. But will it stop? Very unlikely. It has huge catch-up potential still.

China is likely to have the world's largest economy at market prices quite soon

Share of global GDP at market prices (%)



*Japan, S Korea, Canada, Australia

Source: IMF

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3. The probable

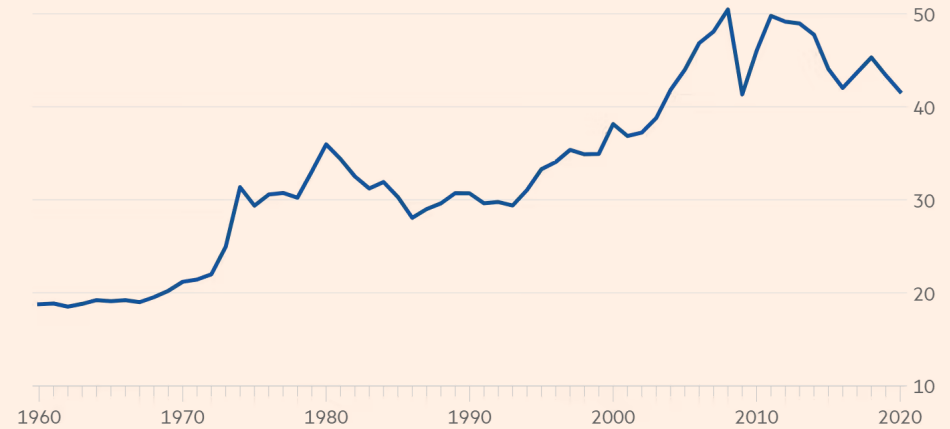
1. “Real” de-globalisation
2. “Virtual” globalisation
3. Debt overhang
4. Low real rates of interest
5. Active government

3. The probable: “real” de- globalisation

Trade has stopped growing faster than
the world economy

World trade in goods has stagnated relative to output since the
financial crisis

World trade in goods, as a % of GDP



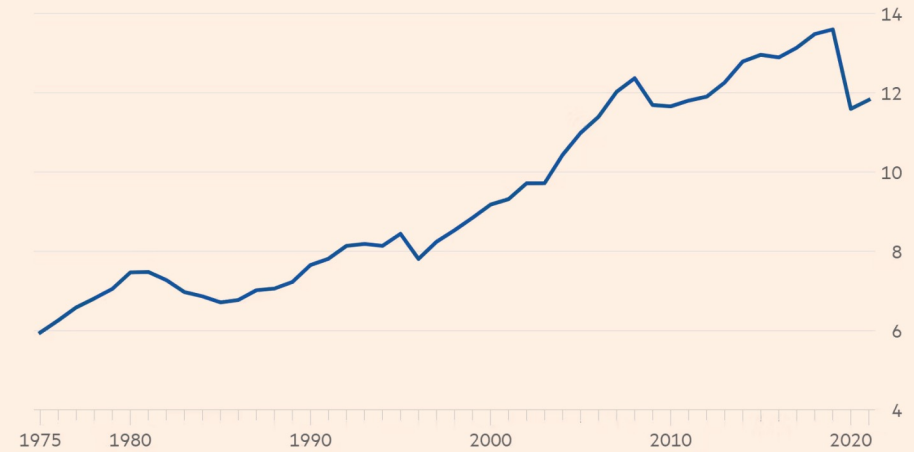
Source: Richard Baldwin (VoxEU.org, CEPR)
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3. The probable: virtual globalisation

The integration of the world via the internet is (almost) unstoppable.

World trade in services continued to rise after trade in goods slowed

Global trade in services (% of GDP)



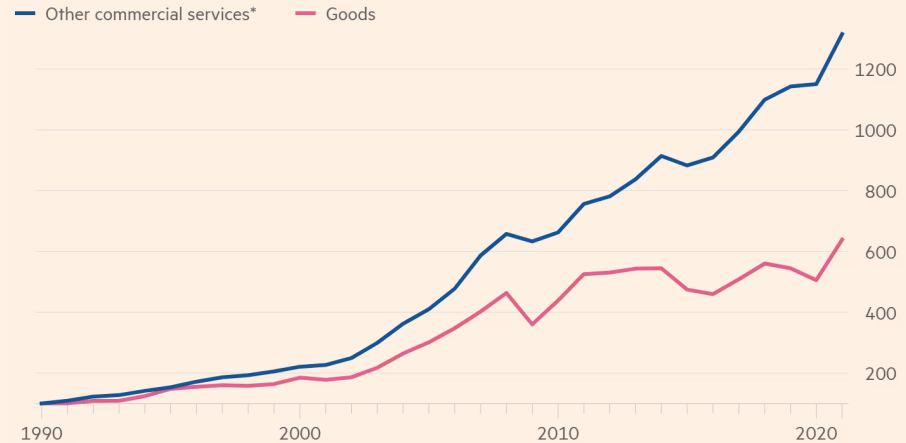
Source: Richard Baldwin (VoxEU.org, CEPR)
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3. The probable: virtual globalisation

The integration of the world via the internet is (almost) unstoppable.

Trade in 'other commercial services' has grown faster than in goods

Trade indices (1990=100)



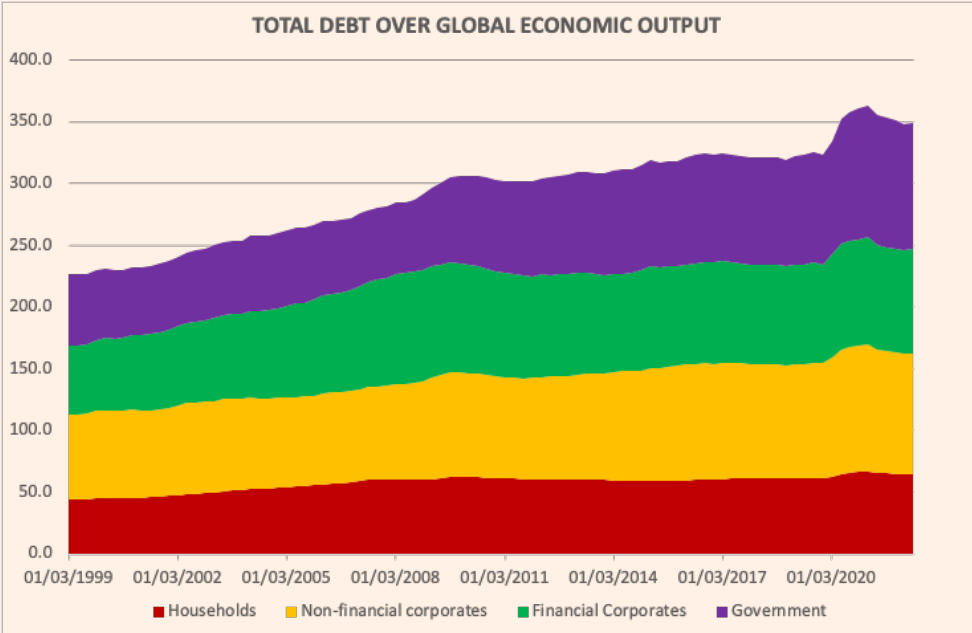
* Services excluding government services & transport/travel

Source: Richard Baldwin (VoxEU.org, CEPR)

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3. The probable: lasting debt overhang

Private sector debt is much bigger than public debt. Overall, debt burdens have reached unprecedented levels. There are only two ways of eliminating the debt overhang: high inflation or mass default.

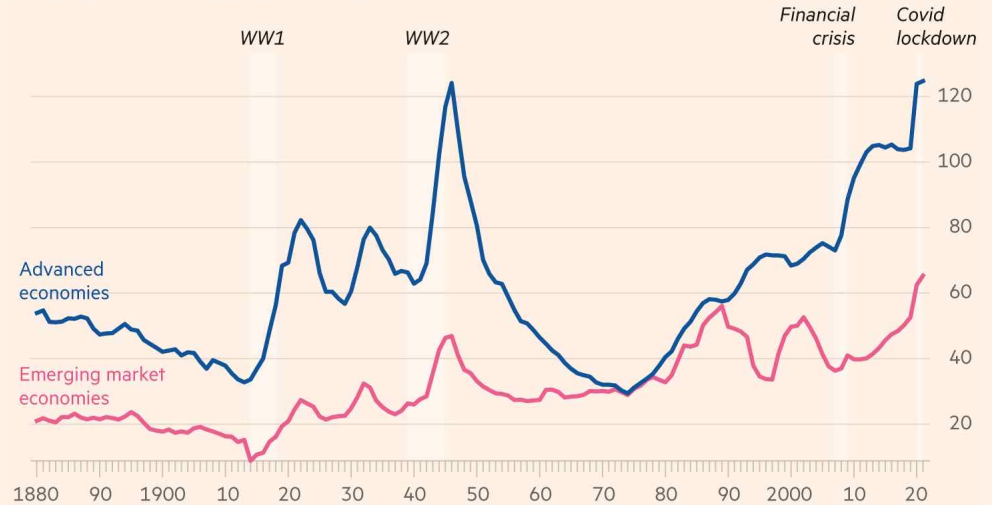


3. The probable: lasting debt overhangs

Public sector debt has reached high levels in many countries.

Sovereign debt has reached historic levels

General government debt as a % of GDP



Aggregate series based on constant sample of 25 advanced and 27 emerging economies, weighted by GDP in purchasing power parity terms Source: IMF © FT

3. The probable: low real interest rates

So long as real interest rates remain reasonably low, debt should be sustainable. In the short run, high inflation threaten higher short-term real rates. In the long term, a shift in the balance between global investment and savings might cause a jump in real interest rates. Massive dislocation is quite possible, but not probable.



3. The probable: active government

- Reagan said: “The nine most terrifying words in the English language are: ‘I’m from the government and I’m here to help’.”
- Government saved us from the financial crisis
- Now governments are saving us from the pandemic
- So today Reagan’s words sound stupid, don’t they?
- The question is whether government will go away:
 - Its ability to raise more resources might be limited
 - But the demand for government action is enormous
- My guess is: it won’t go away

4. The possible

1. Modest probability, high-impact events:

1. Economic:

1. Huge financial crisis
2. Global depression
3. Collapse of trade and capital flows
4. Catastrophic cyber attack

2. Political:

1. Break-up of the EU
2. Constitutional collapse in the US
3. Revolution in China

4. The possible

1. Security:

1. Mega-terrorism
2. War between US and China
3. Nuclear war
4. Floods of refugees

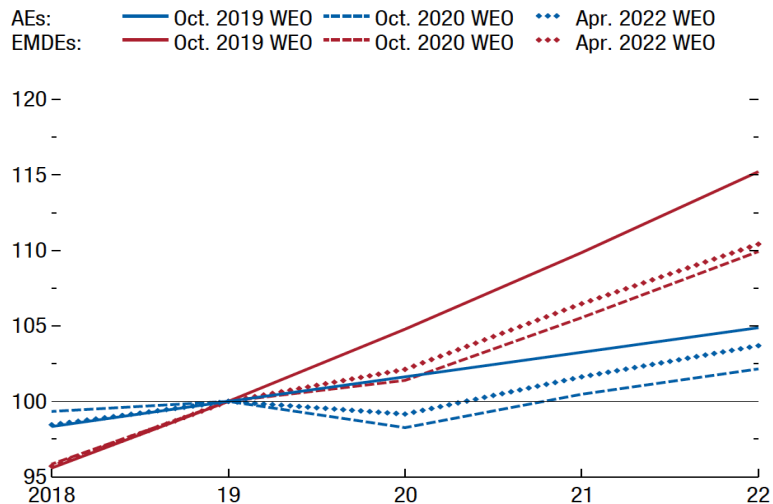
2. Natural:

1. Tipping points for climate
2. Super-volcano eruption
3. More pandemics

5. The immediate: output hangovers

It looks as though emerging countries are likely to suffer long-term losses in potential output from Covid and (to a lesser extent) the Ukraine war. This seems less likely in high-income countries

Figure 1.18. Potential GDP
(Index, 2019 = 100)



Source: IMF staff calculations.

Note: Potential real GDP projections indexed to 2019 values. Each line reflects a different vintage of *World Economic Outlook* (WEO) projections. AEs = advanced economies; EMDEs = emerging market and developing economies.

3. The immediate: monetary hangover

Monetary growth was exceptional in early 2020. We are still living with the consequences, exacerbated by the supply shock generated by Covid and the Russia's invasion of Ukraine.

The jump in US broad money in the pandemic was exceptional

Annual growth in Divisia M4, including Treasuries (%)



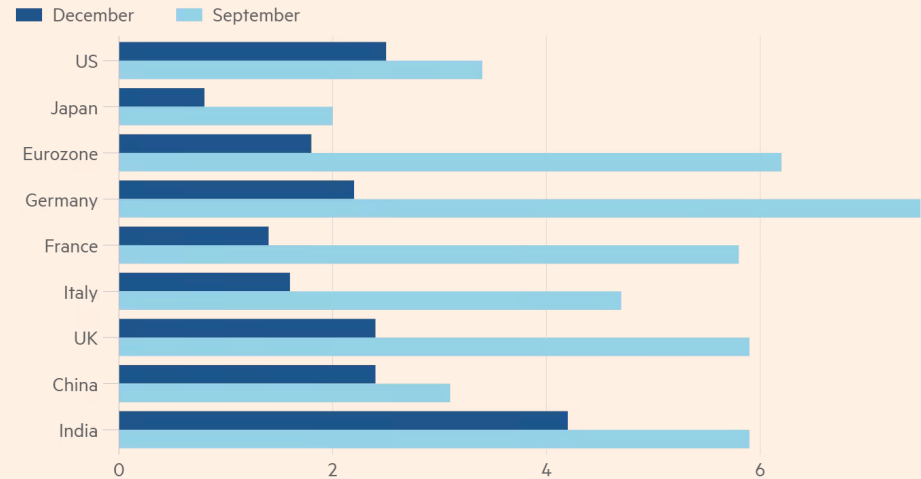
Divisia M4 weights components by their role in transactions
Source: Center for Financial Stability
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3. The immediate: inflation hangovers

Covid and the Ukraine war will leave a legacy of lost growth and high inflation – “stagflation” in other words.

Inflation forecasts are worsening across the board

OECD forecasts for CPI inflation in 2023 (%)



Source: OECD
© FT

5. Conclusion

- Thinking ten years ahead is very hard.
- Some things seem certain, bar extraordinary transformations: economic growth; demography; climate change; technological upheaval; and great power competition.
- Some things seem highly probable: A lengthy Covid hangover, “real” deglobalization and virtual globalisation; a lasting debt overhang; low real interest rates; more active governments.
- Some things seem merely possible, notably economic, political, security or natural disasters. We should be aware of the threat of a high-impact event.
- Today, we suffer from hangovers from Covid and the war in Ukraine