Looking to the long-run global prospects from the middle of a crisis

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A world of change and uncertainty …

- Global economy subject to rapid and profound changes:
  - Over 20 years, emergence of new major global economic actors, North-South rebalancing, geographic reallocation of economic activities, …
  - Globalization process: trade, finance, skilled labor, knowledge, …
- Global economy subject to major uncertainties:
  - Natural resources, environment, financial crisis

A world of disequilibria and unexpected events …

- Disorderly globalization led to dangerous disequilibria and disastrous events:
  - Global imbalances partly responsible for present financial and economic crisis
  - Surge in commodity prices and their volatility
  - Global warming signs ???...

The need for some clarity about economic prospects

- Deep structural changes and uncertainties call for identifying landmarks in future evolution of the global economy.

…. *This is the objective of this presentation*

Outline

1. The 'big picture': the world economy in 2030 and the "Asian factor"
    - The geographical structure of global GDP
    - Growth and reallocation of industrial and manufacturing production
2. The 'small picture': alternative scenarios for the world economy in the EU does not collapse
3. The 'catastrophe scenario': EU's collapse
4. Conclusion

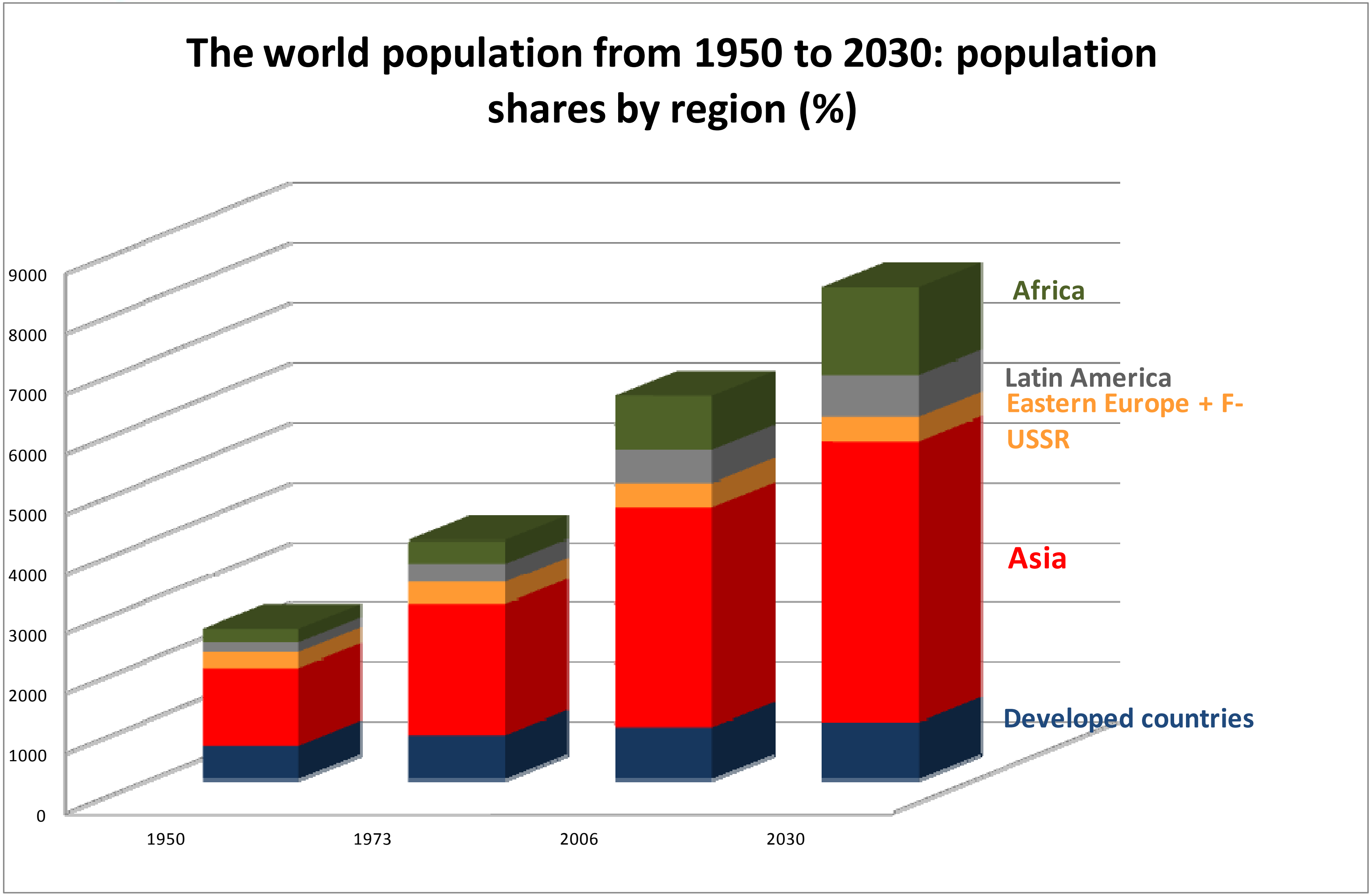
1. The "big picture": the world economy in 2030

- Simulation methodology
  - Extending trends (e.g. Maddison's "forecast")
  - Global modeling permits to make trend extensions at national level mutually consistent
  - Results presented here combine Maddison and modeling (Linkage, World Bank) approaches
- Results to be taken with very much care:
  - Simulations done "ceteris paribus"
  - Many non-economic events
  - Orders of magnitude and consistency of potential changes are what matters

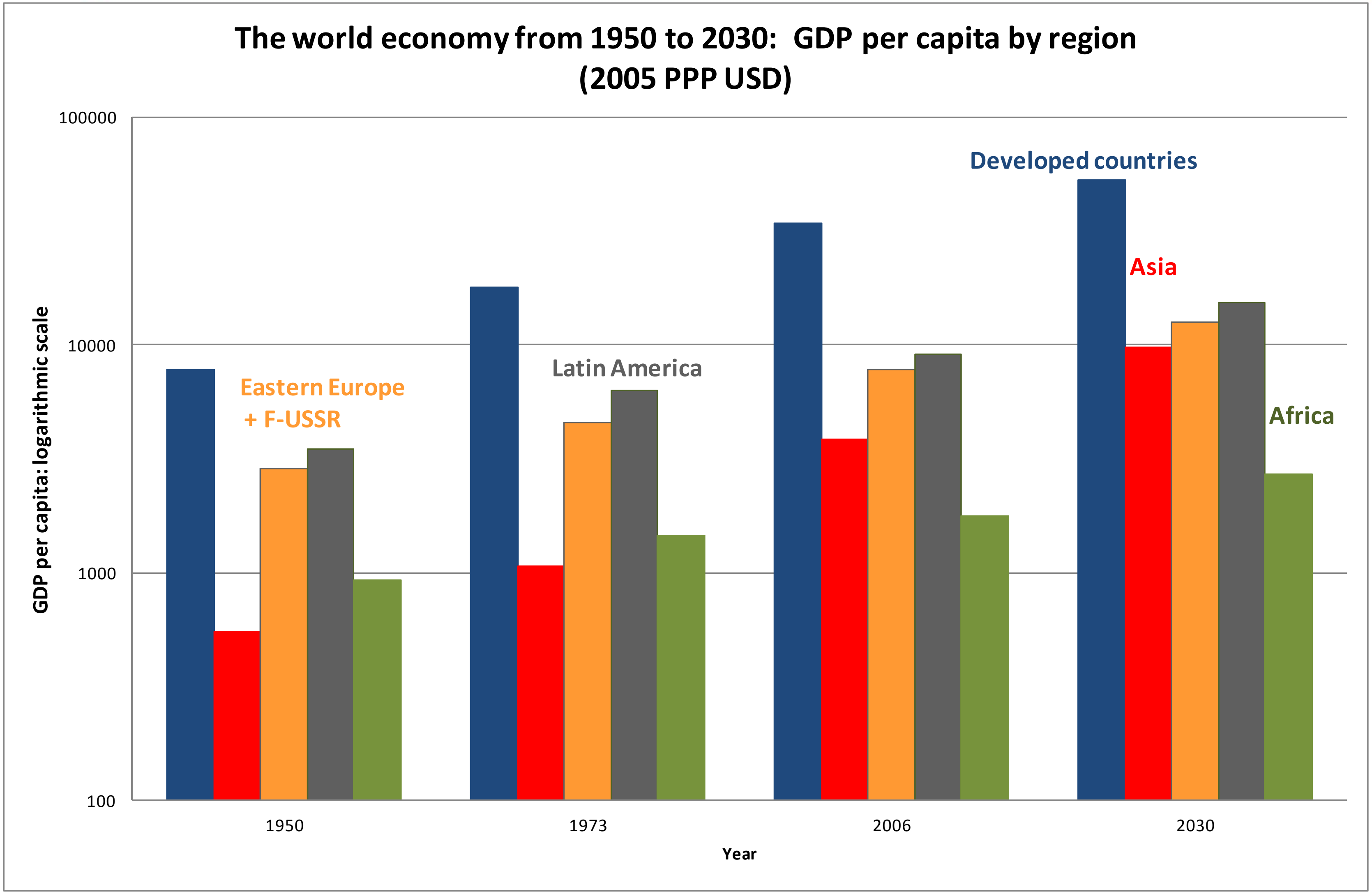
The world economy in 2030

- Basic assumptions
  - Demographic changes as projected by UN
  - Physical and human capital accumulation follows the same pattern as during the 2000s
  - Total factor productivity follows long-run trends, with some slowing down in developed and fast growing emerging countries
  - Continuing restructuring of demand in developed countries
- The importance of commodity trade and commodity prices for the developing world

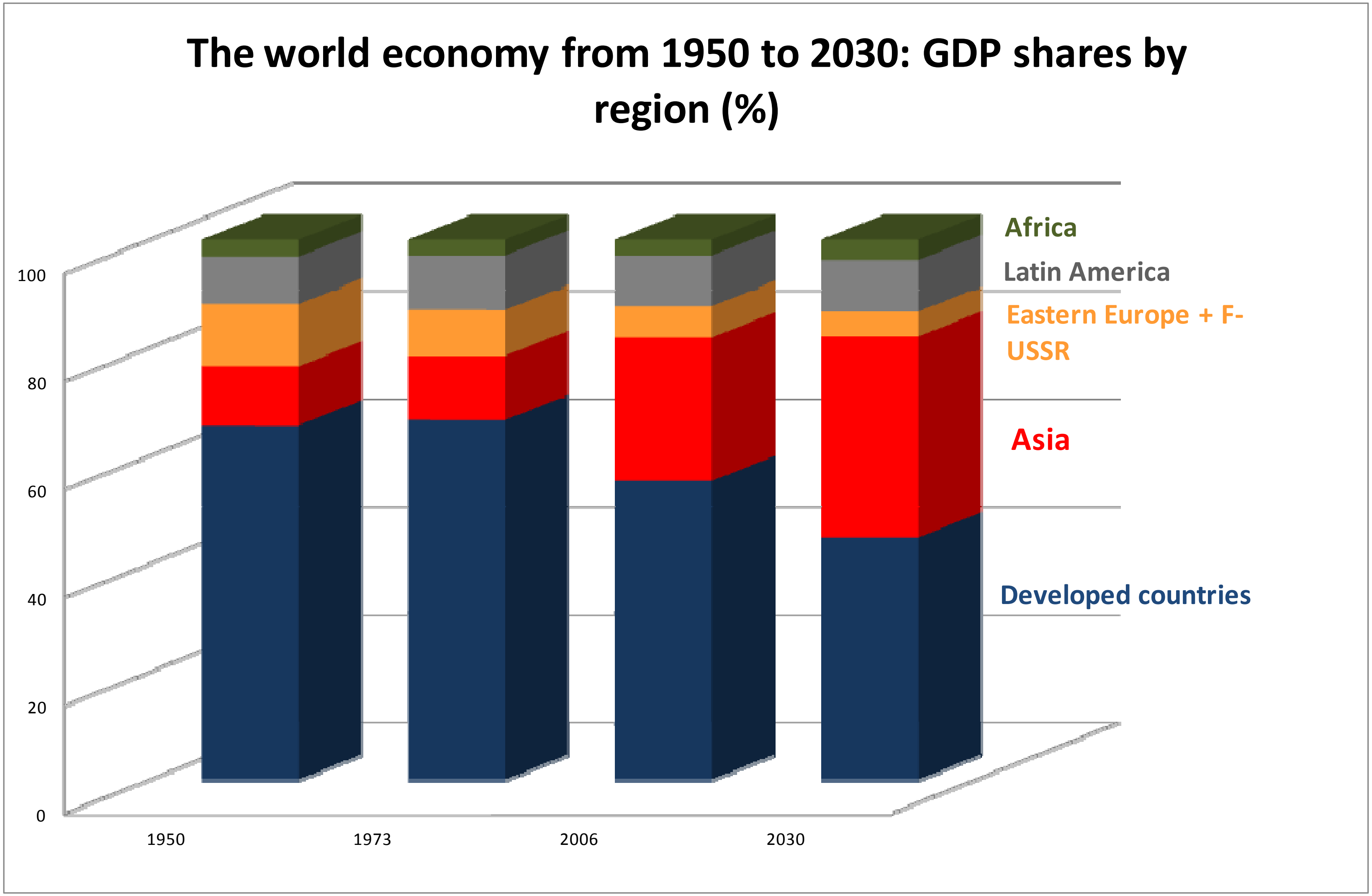
Global population: 1950-2030



Mean income level by region: 1950-2030



Global GDP shares by region: 1950-2030



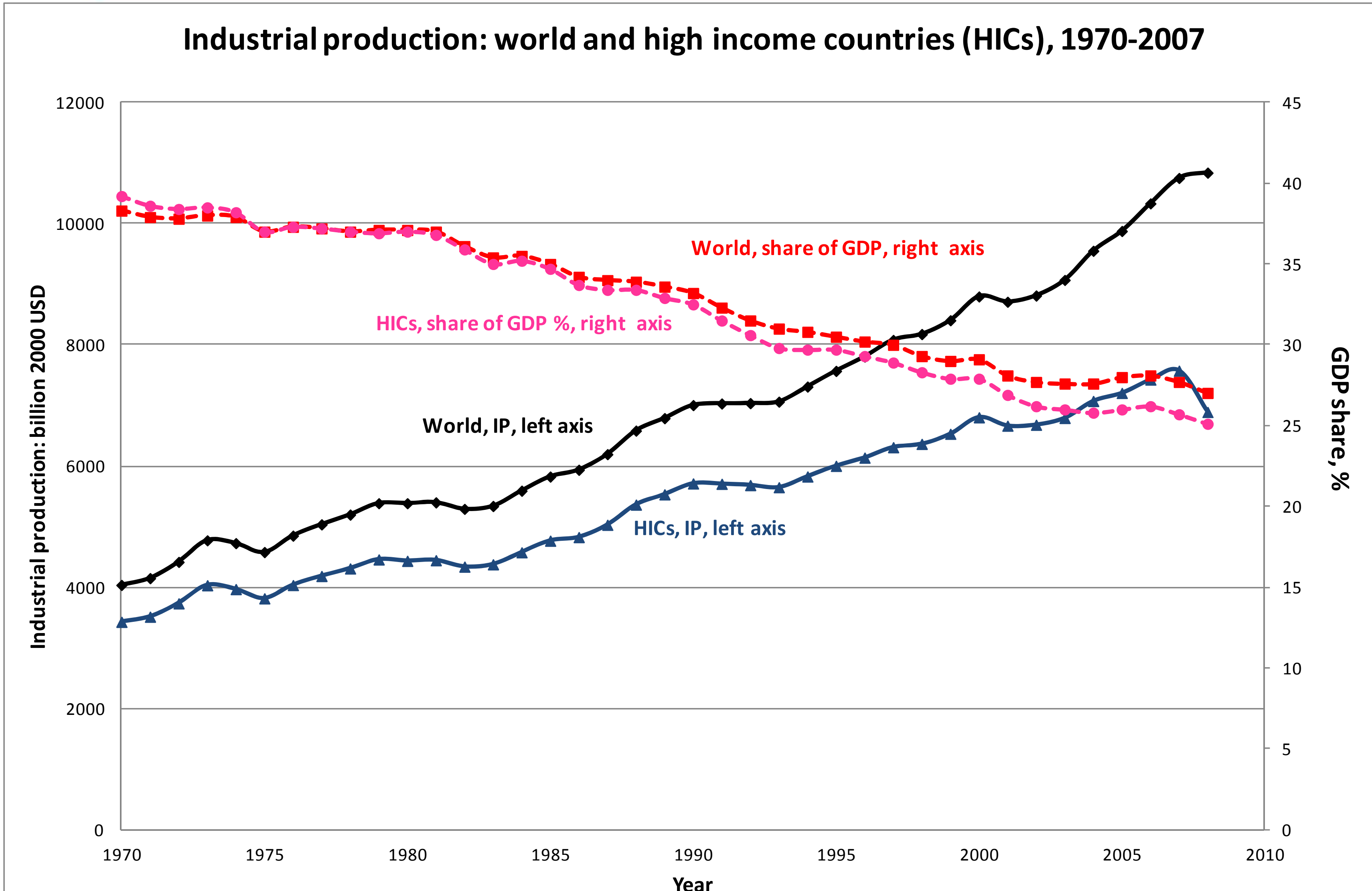
GDP per capita growth rates by region: 1950-2030

Annual growth rates of GDP per capita for selected countries or regions			
	1950-73	1973-2006	2006-30
World	2.8	1.6	2.2
Developed C.	3.7	2.0	1.8
Developing and emerging C.	2.6	2.3	3.1
Asia	2.9	4.0	3.9
China	2.8	6.2	5.3
India	1.4	3.5	4.3
Latin America	2.6	1.1	2.2
Africa	2.0	0.6	1.8

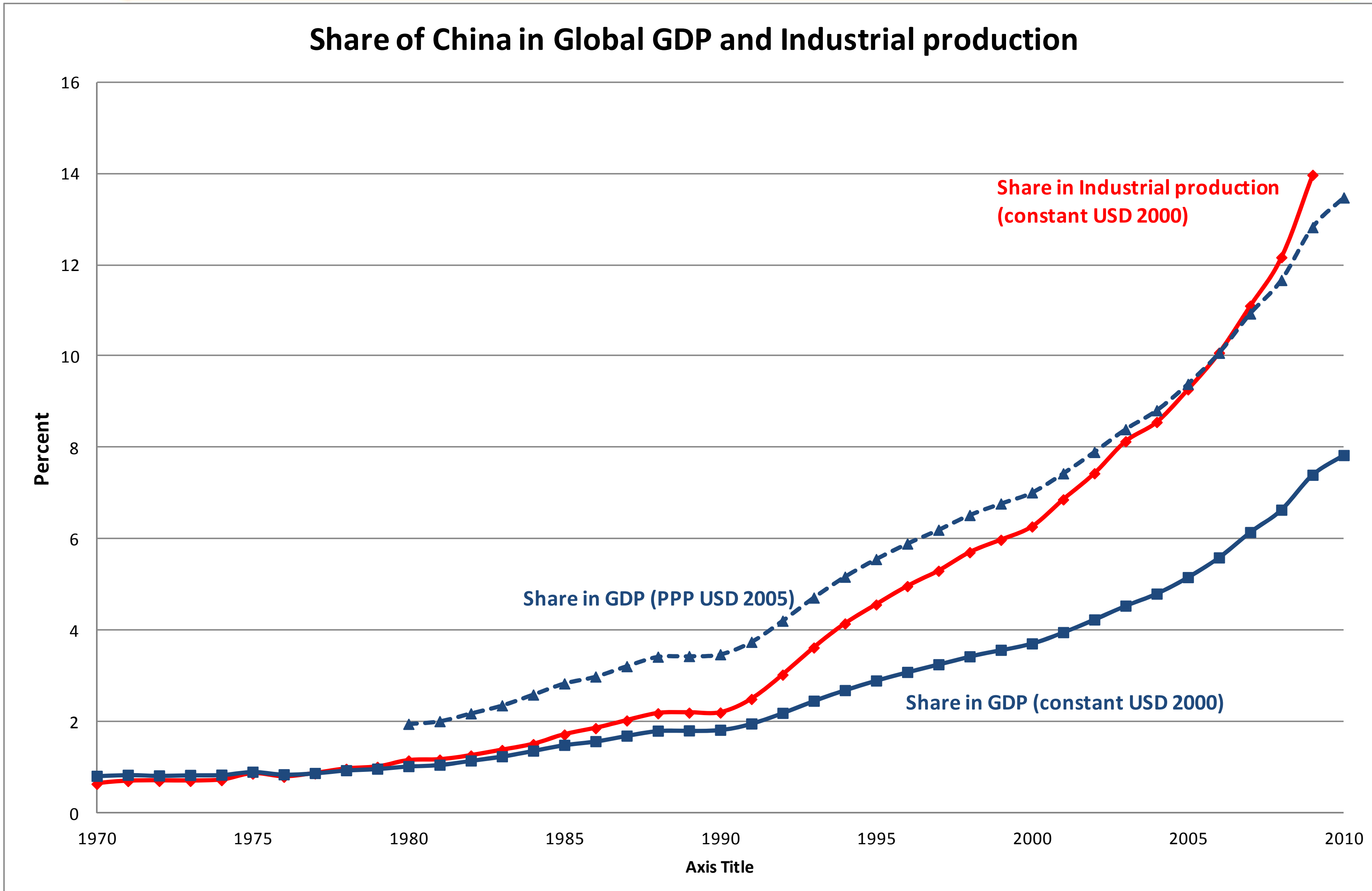
GDP growth rates by region: 1950-2030

Annual growth rates of GDP for selected countries or regions			
	1950-73	1973-2006	2006-30
World	4.7	3.2	3.2
Developed C.	4.8	2.6	2.1
Developing and emerging C.	4.6	4.1	4.2
Asia	5.1	5.8	4.9
China	4.9	7.5	5.8
India	3.5	5.5	5.4
Latin America	5.4	3.0	3.2
Africa	4.4	3.2	3.8
Global industrial production	**4.3**	**2.5**	**2.3**

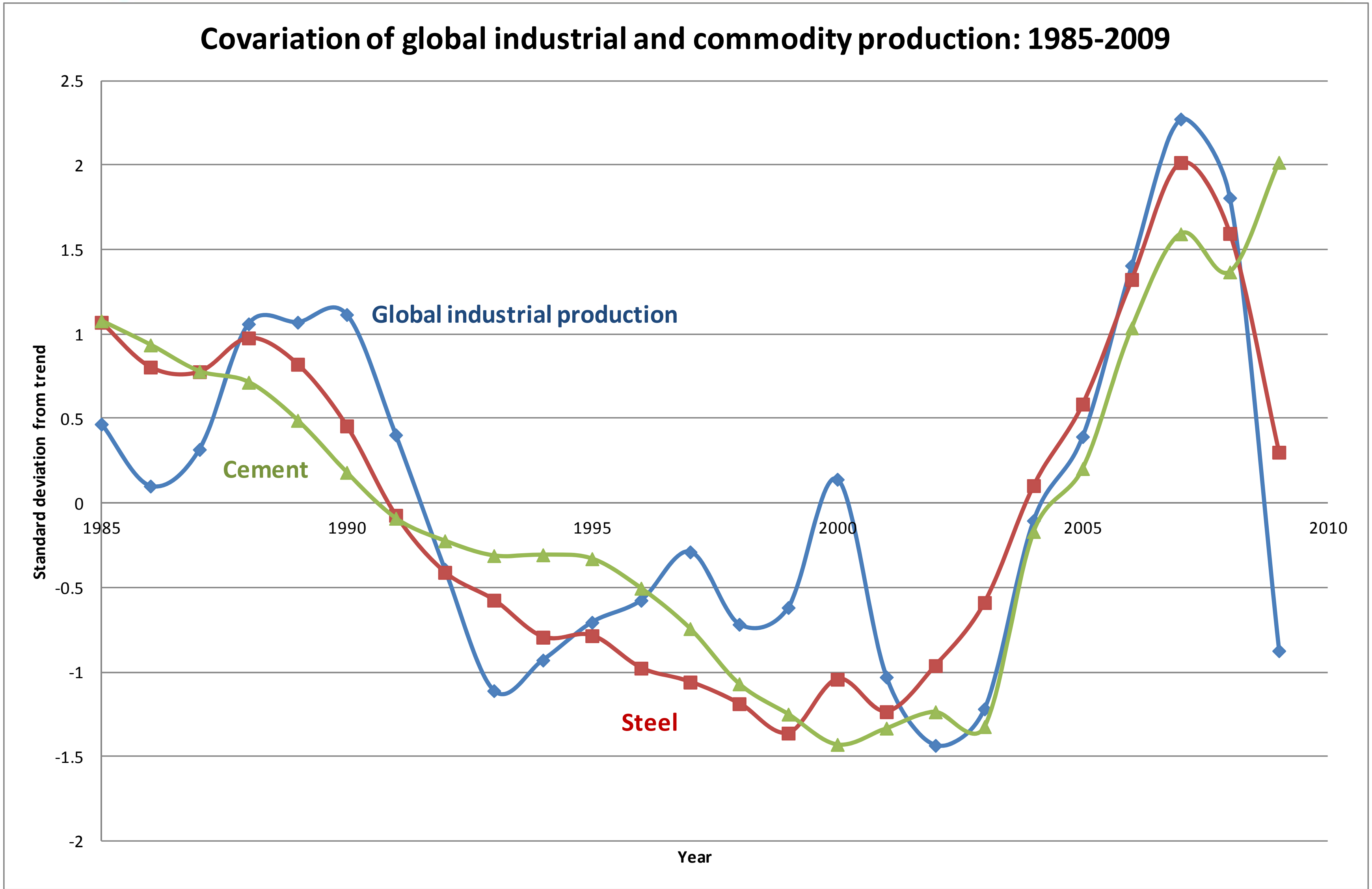
The relocation of industrial production



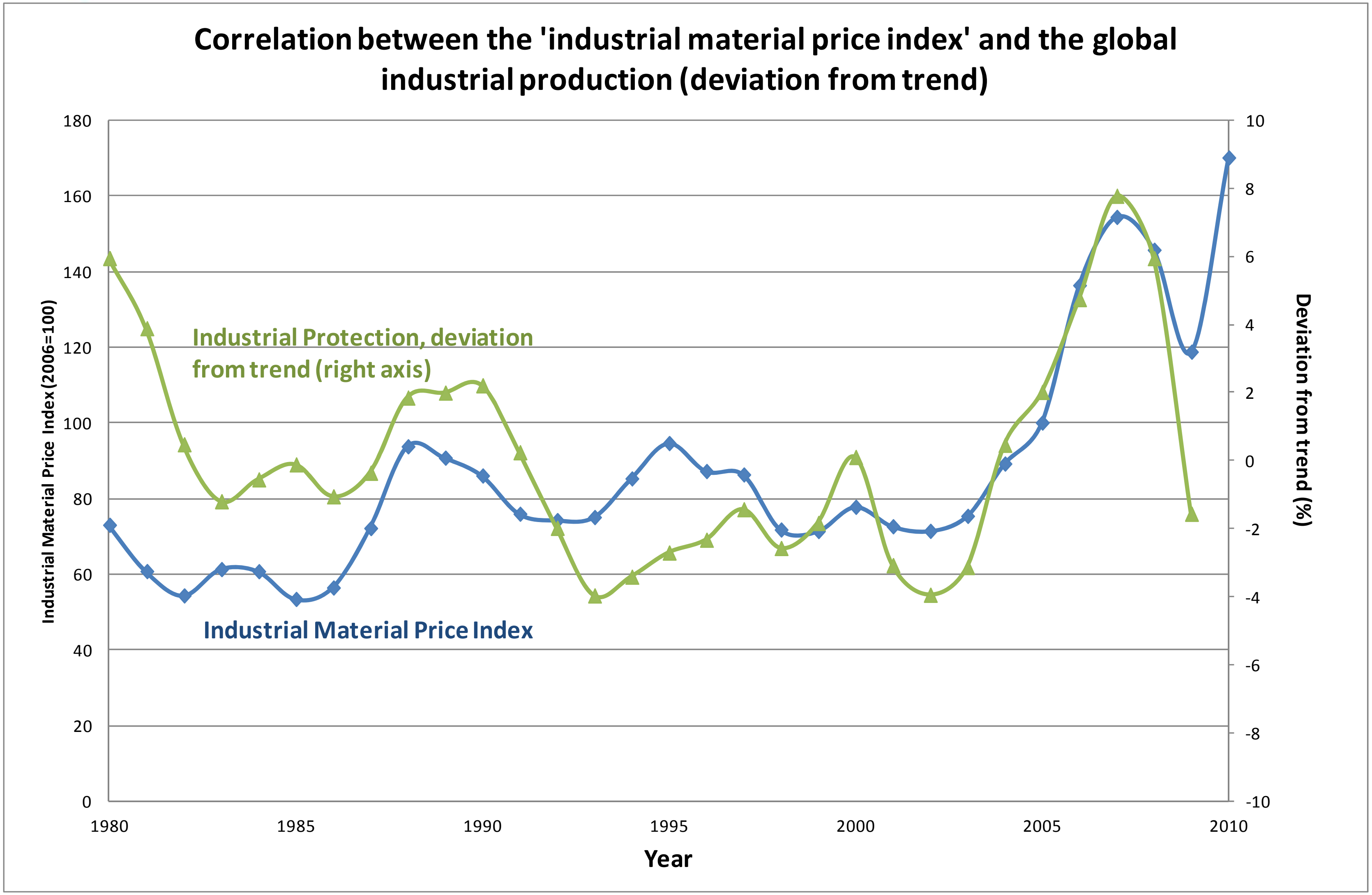
The surge of China in the Global economy and her industrial bias



Parallel cycles in global industrial production and demand for commodities



Global industrial production determines the fluctuation in metal prices



2. The 'small picture': the global economy in the medium-run (without EU collapse)

- 2 scenarios:
  - anemic growth in developed countries for next 3/4 years
  - double dip
- In both cases, emerging countries will be affected but will keep their growth advantage over developed countries.
- Catching up continues
  - IMF World Economic Outlook expects 4 per cent global growth in 2012 and 6 per cent in emerging and developing economies
- Reasons for this North-South asymmetry:
  - Large domestic markets in emerging economies
  - Buoyant South-South trade
  - Southern exports often are mass consumption goods

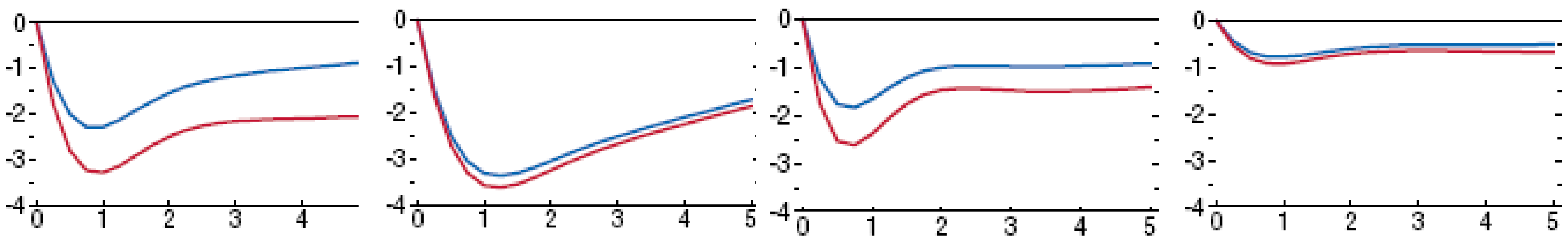
The global economy in the years to come …

- No expected big change in commodity demand and growth among commodity exporters in the 'anemic growth scenario':
  - Emerging countries somewhat sheltered: drop in commodity demand should be limited in comparison to 2010
  - Prices should not drop by more than a few percentage points

- Things would be more serious with the 'double dip' scenario
  - More pronounced drop in demand, even though emerging countries would keep growing
  - Financial turmoil may affect commodity prices and capital invested there

WEO downside scenarios

GDP change

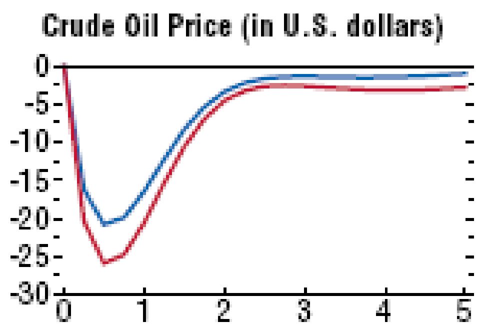


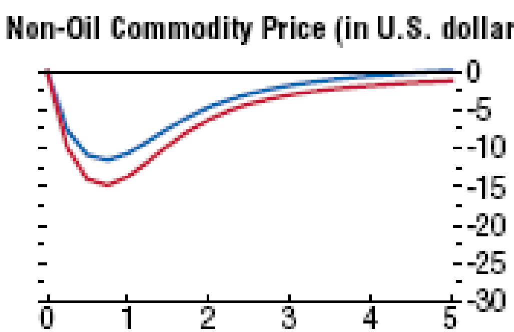
USA

Europe

Emerg. Asia

Lat. America





Debt crisis in Europe

Reduction in growth potential in the US + non-performing loans in Asia

3. Possible exit scenarios from the EU crisis

- Greece:
  - Bail-out as in July 21 plan: default unavoidable
  - Organized default announced on Nov. 3
    - Commitment of additional € 600 bs in the EFSF

      NO: unavoidable global crisis

      YES: major crisis may be avoided IF:
      - Recapitalization of Banks (by whom?)
      - EFSF as a new federal bank (Eurobonds ?)
      - ECB providing all liquidity needed
      - Commitment to reform the fiscal governance of the EU

Conclusion

- Business as usual scenario: GDP and industrial production growth should decelerate a bit but will remain high
- Industrial production increasingly concentrated in emerging Asia
- Increasing weight of emerging countries in global demand (50% of additional overall global demand will originate in Asia)
- Demand for, and prices of basic commodities should remain high and volatile unless supply response kicks in

Conclusion

- Downside risks
  - Double dip in present crisis. Worst scenario, drop in global GDP averaging 1.5% over 4 years
  - Political disruption in China due to slower growth and reorientation towards domestic market (plus financial crisis?)
  - Natural disasters trigger major adjustment in developed countries' environmental policies
  - Weak growth and political instability in fast growing African population (2 billion people in 2050)

- The costs of globalization derail present trends:
  - Inequality, unemployment, …

END