GEO-ECONOMIC RECONFIGURATIONS:
10 Global Megatrends

Harinder Kholi
June 2017
GEO-ECONOMIC RECONFIGURATIONS: 10 global megatrends

My main job today is to talk to the young people present here, to present to you our scenarios for the World 2050 based on our recently released the book The World in 2050: Striving for a more just, prosperous & harmonious global community, with 26 authors from 12 countries.

I want like you to envision where the world may be in 35 years from now, and what you can make of the world, for yourself and your children. In that context, I want to lift you from today’s pessimism about unemployment or near term future of Europe. I want us all to think long-term, because I think fundamentals for the world economy as a whole over the longer term are quite solid. And in thinking about long-term we should be reflecting on the megatrends that would drive the global economy.

These megatrends are not specific to developing countries or about developed countries or to any groups of countries; rather they apply to all countries (although some may apply to a greater degree than others to different sets of countries at any given time). These megatrends are fundamental to the long-term prospects of economies worldwide; they are relevant to advanced and emerging economies alike, because fortunes of all economies are becoming more intertwined. Furthermore, the past sharp distinctions between North and South, developed and developing countries, are getting more and more blurred and this trend will continue in the future. Besides that, countries are getting more interconnected. Finally, these individual megatrends interact with each other, they are not independent or standalone but interact with each other (while some offset, others reinforce each other).

The first megatrend is related to the demographics. The growth rate of the world population is slowing down. Still we will likely move from today’s 7.8 billion population to perhaps 9.7 billion people in the world by 2050, according to the UN. Within this move, there are two big developments. One, much of this growth in global population would be focused on Sub-Saharan Africa and the Middle East; the rest of the world, and particularly the developed world will be ageing, and there will be regions of the world where the population will begin to decline. The biggest decline would be in Japan, which will see a declining in absolute population of about 30%, and in China, that may show a decline even faster than any other country in the history of the world.

The issue of aging will be therefore not just a European issue or an American issue, but also an issue for Latin America, for East Asia and after 2040 even for India. The exceptions will be some parts of South Asia like Pakistan, maybe Iran and certainly the Middle East, the Golf countries and sub Saharan Africa. Africa’s share of global population, which was just 11% in 1980, and will jump to 25% of the world population by 2050. The African continent will account for 55% of growth in total population, between now and 2050. It could have about a billion young people who will be looking for jobs. And if millions of young Africans don’t find meaningful jobs at home, just think what would they do? If Europe is having difficulty absorbing some a few hundred thousand immigrants from Syria today, where will these millions of unemployed Africans go?
The second global megatrend is urbanization. Roughly 50% of the global population today lives in urban areas, and the other 50% in rural areas. In the next thirty years, we are going to see an avalanche of urbanization in the world, mainly in Asia and Africa. Just 3 countries in the world - China, India and Nigeria - will have together a billion extra people coming to urban areas. And there will be a massive increase in the size of urban cities in Africa. Where will the infrastructures facilities come from? Is there enough money to build roads, water supplies, housing, and power facilities? Is there management capacity? How will urban services be provided, managed and paid for? The efficiency of cities worldwide will determine the competitiveness of the economies. Furthermore, with the rising of middle class, people will demand better services and if they are not getting it, there will be serious social and political implications in the countries.

The third and fourth megatrends concern globalization. One of these which have led to the economic growth and prosperity in the world in the last 50 years is the globalization of trade. We believe that this trend will continue but the pace will be slower than we’ve seen in the last 30 to 40 years, partly because the Doha Round has not succeeded, and partly because new barriers to trade are coming, this time including in developed countries. In the next round of global trade negotiations, the focus is going to be less on protection of domestic producers, and more on the protection of consumers. That is being debated right now between Europe and North America and may influence the model of all future trade negotiations. Where would that leave developing countries? The protection of consumers could lead to another way of protection worldwide.

The second megatrend under globalization is the globalization of capital markets, which is accelerating and has so far led to major improvements in mobilization and allocation of resources, but has also created massive liquidity in the world and generated too much risk-taking. Some economists believe that it has also led to the global financial institutions having too much influence and economic power. And, all these developments have in turn caused created excessive volatility in the global economy. The 2007-8 crisis, which was the first financial crisis to occur in the very heart of the financial systems in the world in the modern era (not from the peripheries, not from developing countries), is a wakeup call for the fact that the current global financial institutions are no longer capable of handling a system where there are trillions of dollars of private capital going across the world without any rules. The International Monetary Fund (IMF) has rules on trade and on current balance of payments, but not on capital flows.

The current set of global financial and monetary institutions are simply incapable of handling the current global monetary and financial systems. Our book recommends the G20 should urgently take up this issue, otherwise the next financial crisis in the world is going to be even more costly than the last one.

The fifth megatrend, now on the positive side, is the coming massive rise of middle-classes. Just forty years ago 60% of the world lived in absolute poverty. World Bank has reported, in December 2015, that the incidence of absolute poverty has dipped below 10% for the first time in human history. According to our book, one possible scenario is that 80% of the world population could have per capita income of more than 10 dollars per day, in 2050, which is it a common classification for the middle class. These some 8 billion middle or upper-middle income citizens around the world will become consumers, and will be very good for economics. They also work harder and put much more emphasis on education, which fuels economic growth, an historic lesson we have learnt from Europe and North America.
But middle class is also very demanding of the governments and of the governance, in terms of providing good services and being accountable. That’s what led to the Arab Spring. That’s what we’re seeing in Brazil – with the middle class demanding action to fight corruption. Its going to happen more and more often. As the bulk of global population becomes middle class, it will have serious implications for the political leaders and will lead ultimately to more positive social and political results.

But, if 80% of the world population is middle or upper-middle class, the question that we also need to ask is if these people can replicate today’s life-style of the North Americans and the Europeans? Does our planet have enough resources to support that life-style? There are already signs that the planet is under strains.

This is the sixth megatrend: the competition for resources. It is not possible to have additional 4 billion consumers in Asia and Latin America living the life-style of North Americans or people in UK, or France, or Germany. How much money is enough? When do you say “I’m not going to pursue material wealth”, and beyond that point, “I’m going to live a different life-style”, more simple, more modest and more in harmony with nature?

The next megatrend is climate change, which is clearly the biggest threat to us in our lifetime. Beyond seeing that what happened in Paris was a huge breakthrough, we hope that the promise of 2 degrees rise in comparison with 2001 can be kept. However, it’s just a promise, and the real test would be to see if each of the 196 countries who signed that plan will take real actions that are necessary to keep that promise.

For that, people in each country have to put the feet of their leaders on fire. Because the United Nations cannot force them; it has no money, it has no authority. All they can do is call a meeting and ask the leaders: could you kindly come and talk? The United Nations has no legal authority on the elected leader of China or India, because they report only to their own people - so their people have to demand for action and for accountability from their leaders.

Another critical megatrend is technological progress. The increasing pace of changes could solve many, if not most of, our problems related to climate change, to energy, to ageing, food security, urbanization, or to provision of services at low-cost to people in the so called “the bottom billion”. Nevertheless, in my view, technology is going to be only a partial solution to our biggest challenge related to the fragility of our planet, because we also need changes in life-style as to accommodate the coming almost universal affluence. At the same time, there is also a distractive power of technology, which can be used in many ways. What ISIS is doing today with technology shows that, if it gets in the wrong hands, internet is a tool to recruit extremists worldwide, train them in Syria and send them out to bomb Paris, or Brussels, Karachi or Istanbul.

This brings me to a very difficult megatrend, which is the threat from violent non-state actors. This is a very difficult and growing challenge that has grown tremendously in the last few years; it is now a serious global issue. Europe is the most recent recipient of this problem. Between the 9/11 in the United States and the most recent events in Europe and Syria, there was Jakarta, there was Mumbai, and there was Karachi and there was Baghdad.
Between the 9/11 in the United States and the most recent events in Europe and Syria, there was Jakarta, there was Mumbai, and there was Karachi and there was Baghdad. This megatrend is a combination of fundamentalism with a deep distrust of the current institutions and people in power, often supported by a small minority. It is not a question of Islam vs. Christianity or about Middle East vs. North America or Europe, but rather a global issue. The solution has to be global solidarity; we have to look at fundamentals, we have to improve economic performance of the countries concerned, we have to give people hope – particularly young people, increasing their prospects of having a future, through education, jobs -, and we have to improve the basic governance and credibility of the countries. It is crucial to increase the credibility of institutions and people’s trust in authorities at local and central level, in police, in tax officials and in political leaders. If there is corruption, the people responsible should be held accountable and punished.

Where do all these megatrends lead us to?

If we think of the long-term and in a comprehensive manner, we can look forward with some optimism, that the world will continue to grow and grow well. Our comprehensive study expects an average annual global growth rate of around 4% between now and 2050.

In Europe today this looks may very optimistic. But, this relative robust global growth rate is driven by the much higher growth in emerging markets as a whole than in the so-called developed countries. The United States will grow faster than Europe, and I think Japan will also grow a little faster than Europe, until Europe makes major adjustments in some of its structural policies.

Under our central scenarios, the global Gross Domestic Product (GDP) will probably triple between now and 2050, as it tripled between 1980 and 2015. In 2050, it looks like the emerging markets could account for 70% of global GDP. Asia itself will have half of the global GDP, basically going back to where they were 250 years ago. The centre of gravity of the global economy will thus go back to Asia, most likely with China and India as the two largest economies in the world, followed by the United States.

Nevertheless, the GDP per capita in the G7 will still be double that the GDP per capita of Asia (including Japan, South Korea and Singapore), and three times the GDP per capita of emerging markets as a whole.

The good news is that, again under the central scenario, by 2050 possibly 5.8 billion (out of 9.7 billion people in the world) could have a per capita income equal to, or higher than, the current average in Portugal, Spain, Italy and Greece. Just think of that. It is possible that 74 countries in the world, the majority of the world, could have the same or higher living standards than you, the Portuguese, the Italians and the Greeks have today. We have to make sure the planet doesn’t sink with the weight of that.

These are the megatrends and the fundamentals. It is a lot of hard work for the future to realize such a scenario. It cannot be taken for granted, as it is not pre-ordained by any means. Much can wrong between now and 2050.

Now it’s up to you, young people, your children and grandchildren, to decide what you want to do with these megatrends, and what kind of world you want to create in 2050!
The World in 2050: Ten megatrends

1. **Demographics**
   - Growth rates have eased in all parts of the world, except the Middle East and Sub-Saharan Africa.
   - Today, the world has 7.3 billion people. By 2050, we may be 9.7 billion, with Africa accounting for 55 percent of growth.
   - Except for Africa and the Middle East, all regions will share new challenges of aging, declining populations (Japan, China).
   - Fundamental social, economic and political implications.
   - Major global challenge: provide jobs for Africa’s bulging youth population or accept hundreds of millions of African immigrants in Europe, America and Asia.

2. **Urbanization**
   - Today, just over 50 percent of global population urbanized.
   - By 2050, the world will experience an avalanche of urban migration, mainly in Asia and Africa.
   - Between 80-90 percent of economic output in urban areas.
   - Key implications: cities will need to modernize swiftly to support economic modernization and competitiveness, improve quality of life of their residents, and meet rising expectations of upper and middle classes.

3. **Globalization: International trade**
   - Despite setbacks during the Great Recession, further globalization expected through 2050, BUT at slower pace.
   - Asia to account for biggest increases in global savings, investment, and trade.
   - Key implications: emerging markets must do more domestically (improve policies and institutions) and internationally (fight to maintain an equitable and open trading system).

4. **Globalization: financial markets**
   - Global Financial Crisis of 2007 was a “wake-up call” to entire world.
   - Current institutions ill-suited to handle new realities.
   - World today is awash with excessive liquidity, leveraging and risk-taking, which cause repeated financial crises.
   - Urgent: Reconfiguration of global monetary and financial architecture.

5. **Rise of a massive middle class**
   - A massive middle class in emerging economies in this century.
   - We are poised to see an explosion in the size of the middle and upper-income classes (per capita income >$10 per day).
   - In 2050, world population classified as middle or upper class could rise to just over 8 billion people.
   - There could be over 4 billion additional middle and upper class consumers, fueling further consumption, savings and growth.
   - Fundamental social and political implications (i.e. Arab Spring).

6. **Competition for natural resources**
   - Prospects of universal prosperity also create a new dilemma: Our fragile planet already showing strains (i.e. global warming).
   - Highly unlikely that its finite natural resources can support 4 billion potential new consumers adopting the current Western consumption pattern.
   - Technological breakthroughs will help reduce unit demands for natural resources, BUT unlikely to be enough.
   - People worldwide will need to adopt new life styles: more frugal, more modest and in greater harmony with nature.
7. Climate change
   - Global consensus that climate change will have a critical impact on economic and social well-being of all humanity
   - Examples: increased frequency of severe weather events; melting of glaciers; rise in sea levels and coastal flooding; sharp increase in drought stricken areas; and poor urban air quality
   - Both mitigation and adaptation measures necessary
   - After years of frustrating international negotiations, the Paris Conference in December 2015 finally brought a breakthrough
   - Now starts the real test: political promises must be converted into actions by all

8. Technological progress
   - Communication revolution: In 2015 already 91% of American consumers had their mobile phones within reach at all hours
   - By 2050, practically all Internet connections could be through mobile devices
   - Pace of technological progress is accelerating; breakthroughs could help tackle global challenges (i.e. climate change; natural resources)
   - Technological innovation also necessary to meet the needs of “the bottom billion”

9. Threat from violent non-state actors
   - Terrorism and other non-state violence now a global problem
   - Fundamentalism, rebellion against existing institutions and communications technology combined proving deadly
   - This rise of non-state actors is not just an issue for the “west” but poses a threat to global peace, security and rule of law
   - To reduce these threats, critical to improve domestic economic prospects, equity, credibility of institutions
   - Threats from violent non-state actors are a global issue that require global action and solidarity

10. Rise of emerging market economies
    - Emerging markets already produce 55 percent of global GDP (PPP); a total reversal of their relative weight in less than 35 years
    - By 2050, today’s emerging market economies could account for almost over 70 percent of global output
    - But, the G7 countries will still continue to have a much higher GDP per capita than emerging economies: $79,900 vs. $28,500
    - Incremental growth in global GDP, savings investment, and trade will be mostly in the emerging markets, particularly in Asia
    - However, such outcomes while conceivable, are far from certain. Much can go wrong. The future of emerging economies is in their own hands!
SOBRE O IMVF

O Instituto Marquês de Valle Flôr (IMVF) é uma fundação de direito privado e uma Organização Não Governamental para o Desenvolvimento (ONGD) que realiza ações de ajuda humanitária, de cooperação e educação para o desenvolvimento económico, cultural e social, realiza estudos e trabalhos científicos nos vários domínios do conhecimento, bem como fomenta e divulga a cultura dos países de expressão oficial portuguesa.

ABOUT IMVF

Instituto Marquês de Valle Flôr (IMVF) is a private foundation and a Non-Governmental Development Organization (NGDO) that carries out humanitarian aid and economic, cultural and social development cooperation and education. It also conducts studies and produces scientific papers on several fields of knowledge, and promotes and disseminates the culture of countries whose official language is Portuguese.

Instituto Marquês de Valle Flôr
Rua de São Nicolau, 105
1100-548 Lisboa
Portugal
Tel.: + 351 213 256 300
Fax: + 351 213 471 904
E-mail: info@imvf.org