The world economy in the next decades

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In 1995, when we were celebrating the twenty years of Prometeia's activity, the main long run drivers of the world economy were: the spreading of globalization and the East Asia tigers, the growing wave of the ICT revolution and the internet boom in the stock market, the paved road to European Monetary Union, and finally, the envisaged future worries about population ageing.

Twenty years later, the world is struggling with the convulsions of each of those long run trends. As for the world economy, is the sharp decline of world trade elasticity to GDP during the last four years signalling the end of this phase of globalization? Should we expect a new phase to start in the next decade when other countries start emerging? Is the so-called re-shoring phenomenon just a temporary reaction to the financial crisis and its aftermath, or does it mean that the fragmentation of the supply chains has reached its limit? Will international integration develop on a regional basis rather than globally? Which will be the impact of the slowing down of the population growth in the south of the world? Will the manpower reserves of twenty years ago (Mexico for the US, East Asia For Japan, and East Europe for the euro area) be depleted within the next decade?

The challenge of trying to look for clues far into the future is complicated by the current technological revolution and its evolution, whose possible implications touch upon all the topics of the Conference. The current impact of the technical progress seems to be a global excess supply, amplified by the abundance of labour supply in the emerging world. Is the ageing population in Advanced Economies (AE) combined with the negative impact on employment of technological innovation a sufficient explanation of the aggregate demand stagnation? Why the very low and at times negative inflation is not enough to support the demand to the levels of potential supply? Why the catching-up of the Emerging Markets (EM) does not compensate the lack of demand of the AE? Will the evolution of the world trade help to fill the gap, or will it amplify it? Looking even farther into the future, will technological progress allow, as it did in the past centuries, to increase employment opportunities?

In spite of the financial crisis, the financial markets outside Europe seem to have gone on integrating themselves. Is this the result of the overwhelming world expansion of the US investment banks, or is it a true important phenomenon to support future phases of integration of the world economies? Will the new apparatus of rules and institutions for the world financial markets lead to a reduced weigh of the financial sector, at least in AE? Will those new rules limit an adequate development of trade finance for emerging countries? Given that the new rules and institution do not guarantee avoiding new financial crisis, is there any suggestion to mitigate that risk? Will financial institutions and rules help the EM's to be not too conservative and wary, and avoid accumulating reserves and feeding a new saving glut? Is there any possibility to reduce the risks for EM's of short-term capital inflows and outflows? Under the assumption of a long run inflation close to zero, is there any long run risk for the financial system if the Central Banks keep the inflation targets at two per cent?

As for Europe, the financial crisis, the sovereign debt crisis, the Greek crisis, and (finally?) the migration crisis have been incredibly strong stress tests of its concord. The results are not so comforting. New fragmentations are emerging in financial markets and political behaviours. Europe seems facing a critical trilemma: either a slow death of the EU project, or a sudden collapse of the EMU, or instead a new stepping stone of the European project.

The most recent evolution of growth theory has emphasized the role of institutions, besides innovation and its diffusion. The potential growth for Europe is strongly limited by the ageing of population, which implies that the main engine for growth can only be background institutions of a unified European economy that allows taking profit of the huge wave of migration and technological innovation. Will it be easier to complete the full integration of markets, e.g. of services, telecommunications, energy, etc.? Will an agreement among the main countries on fiscal union be within reach by the beginning of the next decade? In spite of the different economic conditions and prospects of the main Member States (MS)? In any case, will the number of MS leading the process be large enough?