



Global Outlook: Reframing the Issues

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1) Do you feel the recent economic crisis in the developed economies is a prelude to an extended period of recession in these countries or do you believe robust economic growth is still likely over the next decade? If we are to see a return to robust economic growth in the developed economies, what do you think will drive this?

There is a danger of oversimplifying and generalising the situation. Canada, for example, is forecast by the EIU to expand at average 2.5% per year in real terms between 2011-30, which isn't much slower than the average 2.9% average witnessed over the 1980's and 1990's. Likewise Australia is forecast to grow by 3.1% per year over the same period.

That said I believe the core of the western world - the EU and US are in for a decade of turbulence and volatility. Their problems have been well documented elsewhere. However one commonality often missed by analysis is that both share a distinct lack of a growth strategy. Europe's decision to implement austerity has worsened the conditions in the periphery to such an extent that the core is now in jeopardy - and talk of Eurobonds does little to suggest that there is actually a growth plan underpinning any possible resolution of its crisis. Repacking debt helped create the conditions for the current crisis and talk on using debt repackaging to get out of it seems a little simplistic. To this point, the crisis may be existential; debt levels will not improve without growth. Political vision is as sorely needed in the EU as in the US where entrenched party politics has demonstrated its ability to hold hostage key government workings.

An extended period of recession is certainly likely but it is by no means pre-ordained. We are facing a potential mass surrender of wealth on an unprecedented scale. Politicians must ensure that they do not exacerbate the rebalancing of the global economy with its move eastwards by launching key parts of the global economic system into freefall. I think a period of low economic growth is much more likely than perma-slump, though at times, consumers and the public might not be able to tell the difference.

Any theoretical return to robust economic growth must be predicated on an actual growth strategy that is articulated and understood by markets and the public. The U.S and Europe still hold immense comparative advantages in areas that will form the bedrock of tomorrow's economy - such as education, biotechnology, personalised medicine and some facets of green energy. They also need to actively engage the areas of their populaces that have been whipsawed by globalisation - there are over one million jobs that the US cannot fill yet it has

unemployment hovering around 9%. Training for tomorrow, planning for tomorrow and a vision for tomorrow are essential.

2) Given your views on the developing economies, what are the implications for the provision of new or upgraded infrastructure in these regions in the next decade?

Merrill Lynch estimates that \$6 trillion will need to be spent by selected emerging market countries over the next three years (to 2014) to meet the basic needs of their citizens¹ and that half of this will come from China alone.

Booze Allen Hamilton estimated in February 2007 that global infrastructure requirements for the ensuing 25 years would equate to some \$40 trillion, whilst the OECD (January 2008) estimated it could be high as \$65 trillion². Washington DC-based CG/LA Infrastructure believes that, '...given the current infrastructure development model, we're likely to invest about \$24 trillion between now and 2030.' Under a more optimistic scenario this could reach \$42 trillion, with Asia accounting for half of the total alone, and China one third.

Clearly investment is needed in infrastructure for emerging economies to achieve their potential. The key question is how they fund it - China, short of a hard landing shouldn't have a problem, but a dampened global outlook could feedback into some countries' ability to build the sort of infrastructure they need to realise their growth potential. That said, the opportunities are still immense in this area and I expect infrastructure to be a major focus of many emerging and growth markets.

3) Do you see the economic futures of Europe and North America diverging over the next decades - and if so - why?

As two of the three giants of a very intertwined global economic system, it is hard to see how they could diverge significantly. Economic issues seem to travel the Atlantic with ease and there has even been talk of the Federal Reserve acting as a lender of last resort for the Eurozone. Such talk may be fanciful but shows the synergies and potential for negative feedback between the two blocs.

They share some pressures but diverge in others. The European demographic situation is far more pressing than that in the U.S and will require the kind of creative thinking that has been sorely lacking in policy levels with the Euro crisis - indeed the costs of ageing could far outweigh any bailouts.

4) How do you see the developing economies responding to these conditions? Which regions do you think will be especially successful over this period and why?

There is talk of a Chinese hard landing, precipitated by a raft of bad debt at local government levels. A correction is almost certain but China probably has enough capital reserves and, ostensibly, political will to prevent a hard landing. If it did crash, global trade could plummet, putting highly open economies such as Singapore and Hong Kong in danger. Conversely they stand to gain should global depression be averted. Assuming turbulence is the new global normal for the decade to 2020, I would expect the BRIC countries and Indonesia to strengthen as they have enough rising consumer demand, generally low levels of debt and with the exception of Russia, large population bases.

5) It is said that India will overtake China, in terms of population, over the next 20 to 30 years - do you agree - and what do you think this means for both countries going forward?

Some Indian sources even see the date of population primacy as occurring by 2025³. It is hard to argue with demographic data - short of war or a pandemic of some sort, India will overtake China in terms of population.

For India, this could either be a demographic dividend or a demographic nightmare depending on the rate of growth of its economy and the state of its environment. It has been suggested that India will run out of fresh unpolluted water by 2020⁴ for example and it must be remembered that even by 2015, 60% of India will have an average per capita income of less than \$2 per day⁵. Clearly infrastructure development and economic growth are mutually needed. If these are achieved, India holds much potential in the coming decades. For China the point of being passed is more important. China has one of the world's worst demographic outlooks and is ageing rapidly. People over the age of 60 now account for 13.3% of the population, up nearly 3% since 2000⁶. The figure could rise to 25-30% by 2030 - family planning officials estimate that by 2030, China's population of people over 60 years of age will reach 355 million⁷. For China, the burdens of ageing on the economy could be significant, which in parts explains the expediency of economic growth there right now - no poor country has aged to the extent that China is doing so in peacetime. China is in a rush to become rich as it simply has no choice.

Fast Future Research is a global research and consulting company that helps governments and global companies to explore and respond to the ideas, trends and forces shaping the next 5-20 years. www.fastfuture.com

¹ http://articles.businessinsider.com/2011-05-28/markets/30025727_1_market-countries-infrastructure-rmb

²

<http://www.peimedia.com/resources/Books/Best%20Practice%20in%20Infrastructure%20Asset%20Management%20-%20Contents%20&%20extract.pdf>

³ <http://www.peopleandplanet.net/?lid=29876§ion=33&topic=23>

⁴ http://www.dnaindia.com/india/report_india-may-run-out-of-water-by-2020-world-bank_1066368

⁵ <http://blogs.ft.com/beyond-brics/2011/11/24/guest-post-banking-for-the-poor/?catid=491&SID=google#axzz1f8WL7QPP>

⁶ <http://www.bbc.co.uk/news/world-asia-pacific-13218733>

⁷ <http://ipsnews.net/news.asp?idnews=51051>