IPS Corporate Associates Lunch: Outlook for the Global Economy

By Ng Yan Hao
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International economist and author Dr Dambisa Moyo spoke to the Institute of Policy Studies (IPS) Corporate Associates earlier this month on global economic trends and developments. Born in Zambia, Dr Moyo received her PhD in Economics from Oxford University, and was named in *TIME* magazine's list of "100 Most Influential People in the World" in 2009. She is the author of three books that have made it to the New York Times' Bestsellers list.

Dr Moyo identified several problems that global leaders were grappling with. First, the permanent slowdown in world growth (expected to be at 2% per annum, a 50% reduction from rates in the recent past), the slowdown in growth in emerging markets, and the Middle Income Trap for developing countries in the transition from an investment, export-led economy to a consumption-driven economy. Second, the unprecedented levels of political and social risk in emerging countries due to emerging tribalism and the lack of economic opportunities for a rapidly growing young worker demographic in the developing world, particularly in the Middle East and Africa. Third, the ineffectiveness and bluntness of current existing monetary and fiscal tools which had worked in previous economic crisis (1982, 1997, 2001) but were no longer as effective due to high government debt and near-zero interest rates.

Key Trends in the World Economy

Dr Moyo, who serves on the boards of Barclays Bank, a financial services group; SABMiller, a global brewer; and Barrick Gold, a global miner, then highlighted four trends that would shape the future world economy. The first trend is technological disintermediation — technology will play a disruptive role across a wide variety of service industries, including banking, retail, transport, etc., while automation will replace jobs, leading to the prospect of higher structural unemployment. According to a study by the Oxford Martin School, a research and policy unit at Oxford University, an estimated 47% of total US employment is in the high-risk category of being potentially automatable over the next two decades. International Labour Organization (ILO) figures estimate that 100 million people worldwide in the 18–25 age group will be unemployed.

The second trend is demographic divergence. Developed nations face rapidly ageing populations and a weakness in the quality of skillsets while populations in developing countries are young and growing rapidly. For instance, in Uganda, 50% of the population is below the age of 15 and unemployment among younger males is a problem. Dr Moyo said this begs the question of whether "economic development is becoming a contraception for demography because people are having fewer kids, or are we seeing this continuing growth in the world's population that is going to outstrip our ability to provide resources, which is linked to the job question around technology?"

The third trend is income inequality. The growth in income inequality within nations poses the threat of political and social unrest. Furthermore, the failure of neo-capitalism is increasingly evident in countries such as South Africa and Brazil, where despite the adoption of democratic institutions and free and open capital market institutions, high unemployment and low growth continue to plague these countries. This is partly due to trade restrictions, such as EU agricultural subsidies, imposed by developed nations, said Dr Moyo.

Fourth is resource scarcity. While commodity prices have fallen sharply, resource scarcity remains a long-run structural problem due to population growth and finite supply. For instance, new supplies of mineral resources are getting much harder to access, while China faces a food shortfall with just 7% of total land being arable. In addition, countries with technological capabilities are not applying them to solve resource scarcity problems. For example, despite California facing instances of drought, it is developing countries like China and Saudi Arabia that have taken the lead in implementing water desalination solutions. The challenge would be in remaining committed to subsidising and implementing sustainable energy and resource scarcity solutions despite falling prices.

Concluding, Dr Moyo identified three current developments in the global economy. First, there had been greater protectionism and regionalism in trade. Global trade was declining, and free trade regions were increasingly regional, which excluded others. For example, the Trans-Pacific Partnership excluded the Middle East and Africa. Second, cross-border flows: The outflows from emerging markets were at the highest level since 1988, which impacted investment and job growth in countries facing outflows. Third, growth in the welfare state in developed countries: The EU had 7% of world population, 25% of GDP, and 50% of welfare payments; combined with the US, they represented 20% of world population, 45–50% of GDP and 90% of welfare payments. The ageing population would lead to the growth in the state and changes in the social and political landscape.

Question and Answer Session

The Q&A session was chaired by Bank of Singapore's chief economist Dr Richard Jerram. Dr Jerram cited a comment he had heard, that the world was more dangerous than ever before today, despite the crises and tragedies that took place between the 1950s and 1970s. "Why do you think this is a unique time compared to the difficult challenges we have had, and this was just in the post-war period?" he asked.

Dr Moyo replied that this period marked the breakdown of the consensus on the success of free market capitalism, where the prescription of open markets, freer trade and democratic institutions had fallen short of expectations in developing countries, and hence no solutions to the problems raised above that command widespread acceptance were easily available.

A participant questioned if growing religious sectarianism was caused primarily by the absence of economic opportunities or emerging tribal and religious identities, and if the view that economic development would solve these problems was too optimistic. Dr Moyo replied that while tribal and religious identities as a source of diversity would remain, creating a society that provides good healthcare, infrastructure, education, opportunities, and a vested interest of the population in the social order through means such as property ownership, would go a long way towards preventing sectarian violence. Therefore, preventing the formation of oligarchies in both developing and developed countries was crucial to maintaining the social trust and cohesion required in stable societies.

Responding to a question raised on the vulnerability of the financial sector to technological disintermediation, Dr Moyo said that money transfer, investment, corporate and retail banking could be disintermediated by digital technology such as e-commerce, e-saving and crowdfunding. Although risk and regulatory requirements would put a backstop to disintermediation, technology would lead to greater competition and declining returns on capital for the sector.

A participant raised concerns about the impact of technology on inequality, which would provide greater access to education but lead to a winner-takes-all market structure. Dr Moyo replied that while social media such as Twitter offered citizens a democratic voice, technological democratisation as a source of decision-making power in society remained empty without ownership of factors of production, especially capital. Furthermore, labour might be increasingly discounted in a high-tech world.

Dr Moyo added that attempts to improve access to education through technology had not always materialised. In fact, erroneous and over-optimistic assumptions had been made about what technology can do to improve the access and quality of education, and several initiatives such as the "one laptop per child" initiative, as well as Rupert Murdoch's investments in education technology, have showed that returns are not as obvious as they seem.

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