

Itinerari Previdenziali Convegno fine anno, Roma

Economie mature e Paesi emergenti: outlook e opportunità Daniel Gros Centre for European Policy Studies





Major global trends with low uncertainty

- Catch up of emerging economies in terms of human and physical capital
- = > only quality is uncertain

Speed in adjustment of stocks naturally limited, especially for human capital by smaller young cohorts (China).

No full convergence in stocks by 2030.





Major global trends with low uncertainty

=> Growth will be in emerging market. But investment opportunities?





Quality of education: basic skill assured everywhere





Catch up in innovation capacity: some uncertainty (quantity and quality)





Capital accumulation around the world

Capital stocks (\$ billion, 2005 dollars)

Capital Intensity (thousands of 2005 US dollars per capita)







Major global trends with low uncertainty

- ⇒Emerging markets catch up in terms of physical and human capital.
- ⇒Growth driven by 'perspiration' (sufficient until 2030).
- After 2030 will China be able to grow by 'inspiration'?
- But until 2030 nominal GDP growth 3-5 % in EU and US, but 7-10 % in EMEs.





The world economy in 2030





Who will be driving global GDP growth?

2010-2020





Bilateral trade flows and GDP share of the power triangle



Based on MIRAGE, MaGE, IMF and Eurostat





(Unconventional) policy considerations

- More investment for growth and retirement income for ageing population?
- Investing in capital at home can increase <u>level</u> of GDP, but not growth rate.
- Even level effect subject to decreasing returns.
- (Much of the capital built today may be too little used when the populations shrinks.)
- Only investment abroad not subject to decreasing returns.





(Unconventional) policy considerations

- But what if everybody has excess savings?
- (All G-3 ageing!)
- And where to invest?
- Not where growths is highest, but were return to capital be highest!





An older world







 Global ageing => global savings glut if everybody (weighted by GDP, not population) tries to save for retirement!

 => Rates of return must fall. Beware of defined benefit pensions.



Where to invest?

Capital/output rather than capital/labour ratio key indicator of return to capital. EU: high, but variable inside (UK!) China: High and rising US: Low and stable India: Low but rising





Capital output ratio across the G-3





Capital output ratios in the ageing champions





Conclusions for investment

Investment subject to decreasing returns as capital/output ratios rising everywhere.

- \Rightarrow Lower returns than in past.
- Where to invest: in (few) countries will low capital/output ratios (US, UK, India) rather than high growth (but capital rich Asia).
- In Italy: return on capital particularly low.



Thank you for your attention!



Europe towards 2030





(Unconventional) policy considerations

- EU growth de facto more perspiration (accumulation of factors of production) than inspiration (innovation).
- Attempt to foster innovation through perspiration (R&D at 3 % of GDP, plus more graduates) unlikely to succeed (Japan fulfills all 2020 targets today).
- Need 'disruptive' policies to enhance innovation/productivity:
 - 1. Labour markets/regulation of services.
 - 2. Capital markets!



Policy Challenges and Game Changers



Population and Savings







Financial flows grow more than proportional to GDP growth





Technology, innovation and growth

- Much hype about technology.
- Fact: <u>TFP growth falling</u> across advanced economies, especially EU.
- Revival of TFP based on faith, rather than solid evidence
- Unlikely that Europe could take advantage of technological game changers (US is technological leader)
- Role of innovation in the non-tradable sector (e.g. heath) potentially huge, but need market structures to drive adoption.



Who will be driving global growth? (2)

	2000-2010		2010-2020		2020-2030	
	PPP	Current USD	PPP	Current USD	PPP	Current USD
CHN	29%	20%	33%	33%	34%	39%
IND	10%	5%	12%	6%	13%	8%
JPN	2%	-1%	2%	7%	2%	7%
USA	11%	11%	9%	8%	7%	7%
EU	10%	23%	8%	11%	7%	9%
SSA	3%	3%	4%	3%	5%	3%
ROW	35%	38%	33%	32%	32%	28%



GDP growth PPP in 2030 (blue shading) and GDP per capita PPP in thousands of USD (green bar charts)