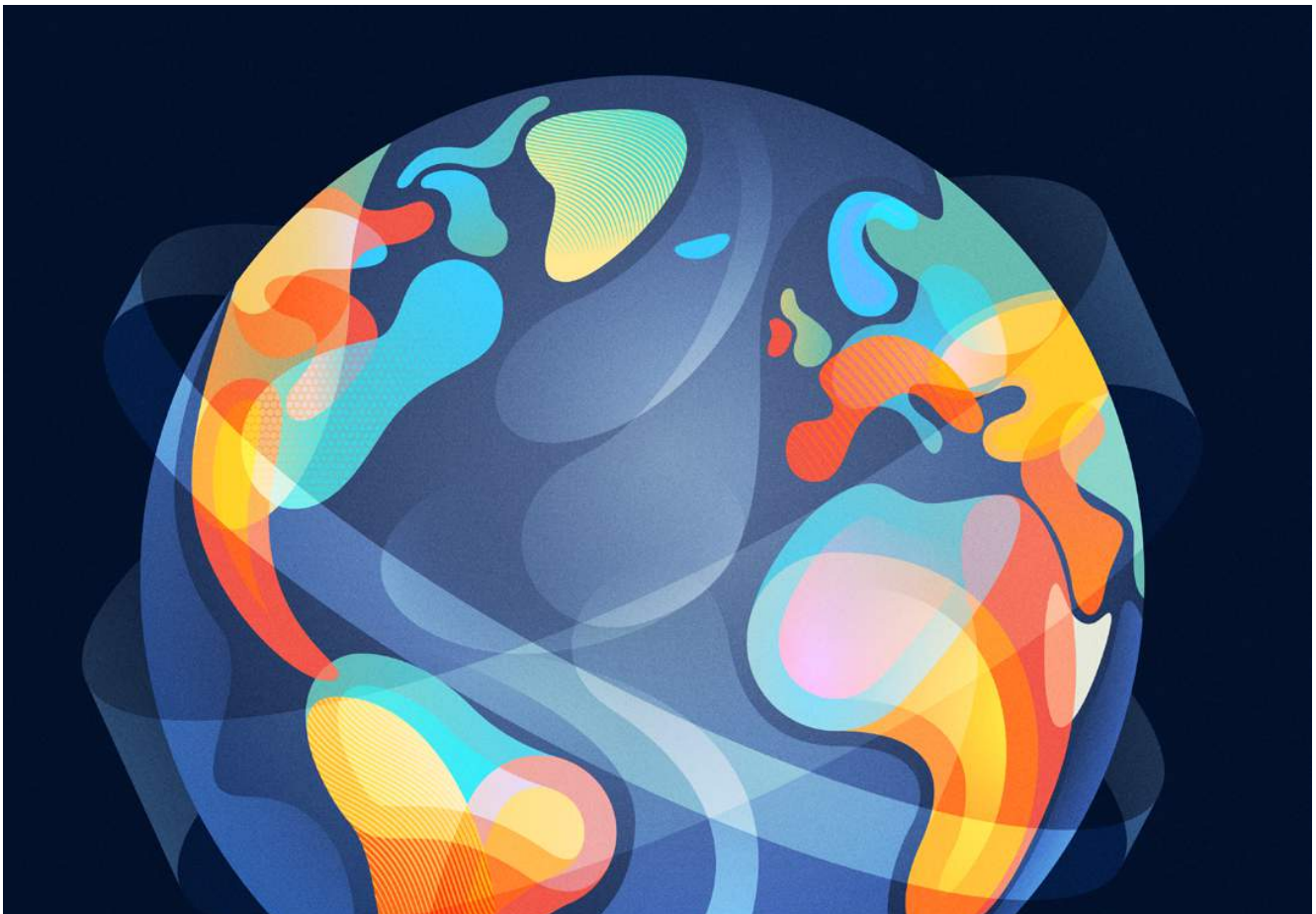


Special Report

Shaping a Multiconceptual World 2020



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Shaping a Multiconceptual World 2020

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The 50th anniversary of the World Economic Forum coincides with a period of profound global change. These events prompted the Forum to draw on its network of diverse experts – heads of leading global think tanks and research institutions – and present 10 chapters that explore the emerging shape of geopolitics in the new era.

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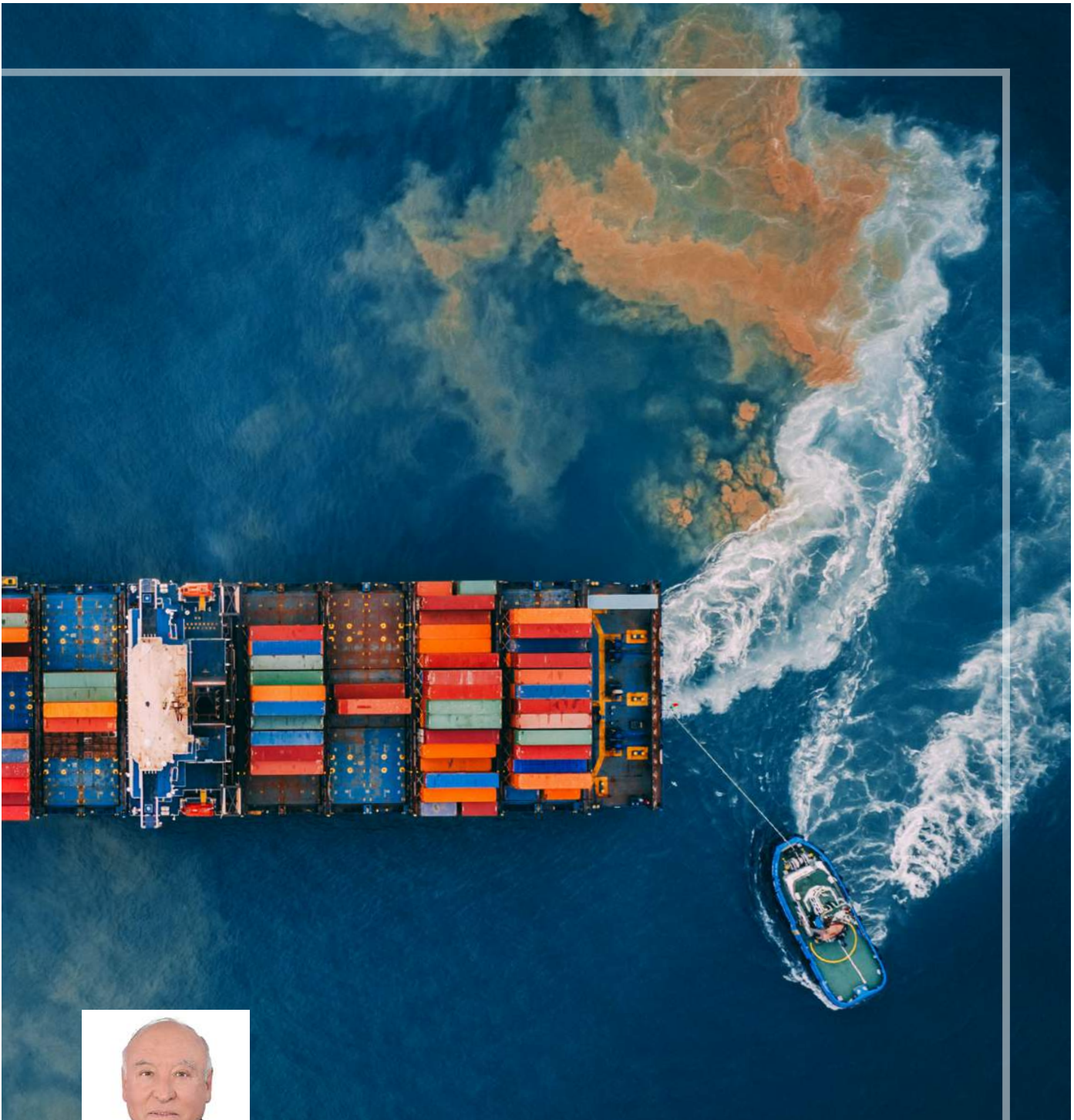
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Economic and Trade Challenges for a World in Transition



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The world is confronting a dynamic and accelerated process of change. The multilateral architecture that was designed and successfully implemented after World War II is being questioned. The rise of actors like China and several developing countries has changed the balance of power in recent years. Globalization is under attack even by leaders of countries that were the founders, promoters and defenders of open markets, free trade, regional

integration and multilateralism. Renewed nationalism and regional fragmentation are prevalent trends in several parts of the world. International relations are moving from a cooperative spirit to a competitive one, particularly in the trade area. In this environment, the World Trade Organization and other multilateral institutions that were created to manage trade relations are facing difficulties to operate effectively.

Tensions between the United States and China will have a negative impact on the global economy and, more specifically, on developing countries.¹ Yet, despite these immediate challenges and despite any short-term opportunities that these developments may present, Latin America should take a long-term perspective. It should focus on the fundamentals of strengthening regional integration and identifying avenues for growing intra-regional and global trade.

Latin America in the middle-income trap

Latin America, considered the world's most prosperous developing region as early as in the first half of the 20th century, has been caught for the last several decades in the middle-income trap – the phenomenon of developing economies getting stuck at a certain level of income. In fact, the economic trend is not encouraging; the region has moved from periods of macroeconomic stability, reasonable rates of growth and positive social indicators, to periods of fiscal and monetary imbalances, debt problems and inflation.²

The region's economic challenges are clear when examining global economic data:

- Since 1960, the region has stagnated at a 5-6% range of total global economic output.³
- Per capita income compared to the United States has remained in the 25-27% range for decades and has diminished considerably as compared to the more dynamic emerging economies in Asia.⁴
- The participation of Latin America in world trade has diminished from 11% in the early 1980s to 5.5% in 2014.⁵
- Notwithstanding a substantial reduction in the level of poverty over the last two decades, the region continues to be the most unequal in the world.⁶

Part of the reason for Latin America's erratic performance and stagnation since the late 1970s is the region's high dependence on primary commodities and low-technology goods for export, productivity and competitiveness gaps and insufficient investment and savings levels.⁷ Complacency and the belief that super cycles of high commodity prices and temporary access to international flows of capital at low interest rates would last forever have also been responsible for Latin America's loss of relative importance compared to emerging Asia and other dynamic economies in the world.



Tensions between the United States and China will have a negative impact on the global economy

Another factor has been the presence of too many regional platforms, sponsored by different governments with diverse and changing ideological and geopolitical positions, which has prevented Latin America from consolidating a coherent regional economic identity. Furthermore, countries have tended to prioritize their relationship with the United States, China and other

extra-regional partners in response to the demand for their traditional exports. As part of this trend, new pragmatic alliances have been established in recent years, such as the Pacific Alliance between Chile, Colombia, Mexico and Peru. Also, a good number of free trade agreements have been signed and are being negotiated between Latin American countries and nations around the world. All these factors are important reasons for the low level of intra-regional trade in Latin America (15.5%), one of the lowest in the world.⁸

Trade as a catalyst to accelerate development

For Latin America to thrive, it will need to accelerate the transition towards a higher value-added exports paradigm. This implies an effective process of productive transformation that would expand natural resource manufactures and other medium and high-technology exports not only to traditional markets but also to new destinations.

At the same time, intra-regional trade should be expanded and serve as a catalytic vehicle to support small and medium-sized enterprises that produce low and medium technology goods and services, and to insert the region in value chains with a global perspective.

To be successful, the region should prioritize the following:

1. Technology and digital platforms

Investment in the expansion and modernization of information and communications technologies and digital platforms is a crucial component of a successful strategy. As expressed by Jeffrey Sachs in a recent round-table discussion on global affairs, the digital revolution will require a new development pathway that is not dependent on the export of labour-intensive manufactures.⁹

2. Infrastructure and logistics

Actions should be taken to achieve higher levels of investment in infrastructure and logistics, since the region invests around 3% of GDP, compared to more than 7% in emerging Asia. Given the magnitude of financing required, governments should adopt stable rules of the game for the mobilization of internal and external savings, especially from institutional investors. Attracting foreign investment and establishing public-private partnerships and special purpose vehicles should be an integral part of this agenda.

3. Trade facilitation and soft infrastructure components

Improving trade facilitation and border management components is critical, as is reducing non-tariff barriers to reduce transport costs. Included in this group are import licensing, price controls, import subsidies and technical measures related to product standards and quality, as well as sanitary and phytosanitary specifications.

4. Education and skills

Since the digital revolution will require a new development pathway that is not as dependent on the production of labour-intensive products and services for domestic supply and export, an important challenge will be to find alternative activities that could absorb contingent and displaced workers. Consolidating an efficient labour force with appropriate skills, abilities and qualifications to work in the advanced technological and digital environment of the future is key. Success in this effort will allow countries to better respond to the increased demand in global value chains for more knowledge intensive and highly skilled labour.

5. External financing foreign direct investment

Access to external financing (i.e. debt, equity and other instruments from multilateral and bilateral development agencies, commercial banks, capital markets and FDI) is of the utmost importance to close the gap that separates total investment needs from total national savings. Beyond providing capital and financial resources, FDI should be seen as an important factor for the transfer of technology, the improvement of managerial practices and the diversification of exports.

6. Climate change and the environment

Measuring their impact on climate change and the environment should be standard practice for all investments, technological changes, productive processes and trade. The environment must be at the centre of strategy and policy design, as well as of project preparation, evaluation and implementation.

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Latin America in the new geopolitical landscape

For Latin America to regain the relative economic and geopolitical relevance it enjoyed a few decades ago, countries in the region need to account for what may be a new multipolar global power structure, in which economic, social and political interactions are highly influenced by the competing and even confrontational behaviour of the United States and China and by the dynamics of the Fourth Industrial Revolution. But the fact that the trade confrontation between the United States and China opens, in the short run, an opportunity for South America to replace US exports of natural resource commodities to China and low and medium technology Chinese manufactures to the United States does not mean that the long-term trade strategy, based on productive transformation and value-added exports, should be postponed.

Latin America should also redefine its existing regional integration and cooperation principles and institutional mechanisms in line with the geopolitical and economic realities of the new epoch. The renewed process should be viewed not only as an instrument to increase intra-regional trade, but as a vehicle to insert the region in global value chains and to diversify trading partners. In this process, efforts should be made to strengthen relations beyond its traditional partners and its already growing ties with China to India, Korea and other dynamic emerging economies of the world.

Finally, the region should relaunch a regional integration process to construct a common regional position on trade and other multilateral issues. This is a necessary condition for Latin America to have a relevant voice in global negotiations on trade, climate change, the financing of development, multilateralism and other relevant areas.



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¹ The International Monetary Fund projects mediocre rates of growth for Latin America of 0.2% and 1.8% for 2019 and 2020, respectively. International Monetary Fund, "World Economic Outlook, October 2019: Global Manufacturing Downturn, Rising Trade Barriers, 2019," <https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019>, accessed 31 October 2019.

² Performance so far during this century confirms this trend. While the average rate of growth was 4.1% during the 2004-2009 super cycle of high commodity prices, the average rate for the entire 2000-2018 period was only 2.46%, compared to 7.36% in emerging Asian economies. This is the consequence of low growth rates between 2000 and 2003 (1.6%) and particularly during the 2014-2018 period (0.6%). Internal calculations derived from country statistics of the World Bank, International Monetary Fund and Centennial Group.

³ Internal calculations based on World Bank country statistics.

⁴ The Region's per capita income was 4.0 and 2.3 times higher than China's and Korea's, respectively, in 1960; in 2018, it only represented 0.98% and 0.28% of China's and Korea's. Internal calculations based on World Bank country statistics.

⁵ Claudio M. Loser, "Where is Latin America Going: Developments and Medium Term Prospects", Emerging Markets Forum, 20–22 October 2019, <http://www.emergingmarketsforum.org/wp-content/uploads/2019/10/Latin-America-October-2019-Web.pdf>; accessed 31 October 2019; Internal calculations based on Centennial Group projections and International Monetary Fund, "World Economic Outlook", April 2016.

⁶ The average Gini coefficient was 0.47 in 2014. United Nations Economic Commission for Latin America and the Caribbean, "Latin American Economic Outlook 2019: Development in Transition", October 2019, <https://www.cepal.org/en/publications/44515-latin-american-economic-outlook-2019-development-transition>, accessed 31 October 2019.

⁷ According to the following indicators: (1) Export concentration: with the exception of Mexico, with a relatively low participation of commodities in exports (11%), the rest of the region is characterized by a high concentration of exports in commodities (34%), particularly in South America (55%). These levels of concentration expose the region's countries to recurrent volatility in commodity prices, with the corresponding negative impact on macroeconomic and development indicators. (2) Productivity: productivity growth in Latin America has been low in recent decades compared to all emerging and developing regions of the world. According to the Centennial Group, total-factor productivity (TFP) average growth in the 2000-2018 period was only 0.33% for Latin America, compared to 2.93% and 4.0% in emerging and developing countries and emerging Asia, respectively. (3) Competitiveness: the World Economic Forum Global Competitiveness Report 2018 (with Global Competitiveness Index 4.0 2018 rankings) indicates that the 19 Latin American countries included in the survey ranked, on average, 82nd among 147 countries. Furthermore, in the 12 pillars assessing competitiveness, out of a possible maximum 100% performance index for each pillar, the average for Latin America was 56%. (4) Savings and investment ratios: low savings and investment ratios characterize the region. Average total national savings is 19% of GDP, compared to 39% in emerging Asia. At the same time, total investment in the region is, on average, 20% of GDP, compared to 37% in emerging Asia. It is estimated that total investment ratios of 25% or higher are required to achieve annual growth rates above 5% in the next 30 years, if the region wants to converge, in terms of per capita income, with the advanced economies. Internal calculations based on data and statistics of the World Bank, the World Economic Forum, the Economic Commission for Latin America and the Caribbean and Centennial Latin America.

⁸ United Nations International Trade and Integration of the Economic Commission for Latin America and the Caribbean, "International Trade Outlook for Latin America and the Caribbean: Adverse Global Conditions Leave the Region Lagging Further Behind", 2019.

⁹ Jeffrey Sachs, "Some Brief Reflections on Digital Technologies and Economic Development", *Ethics & International Affairs*, vol. 33, no. 2, 2019, pp. 159-167.



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