

Position Paper Series

What The Future Looks Like

Maomao Hu, Joel Christoph and Alfredo J. Morales

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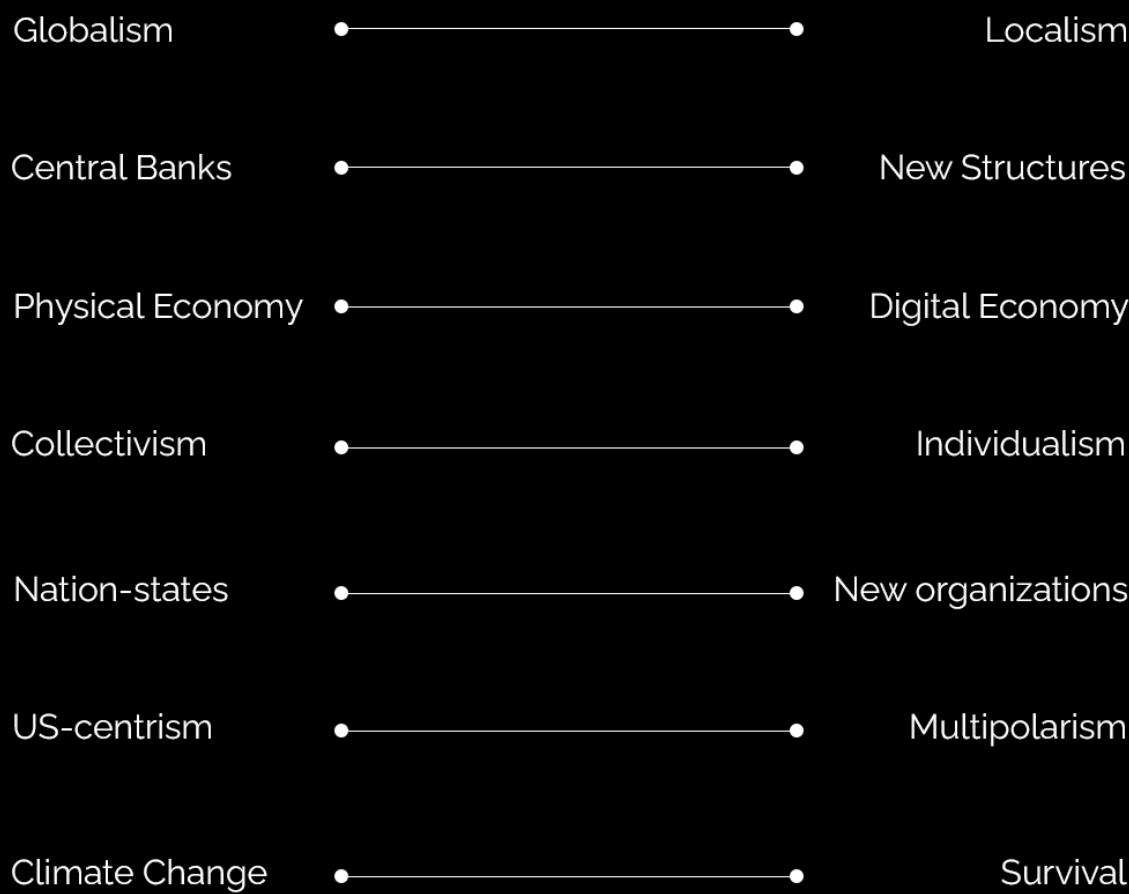
At the beginning of 2020, we all knew great change was due for the world, but no one could have guessed this is where we would end up. COVID-19 has catalyzed and forced in weeks what might otherwise have taken years. For many, the idea of developments "in the future," which may have seemed remote and abstract, suddenly seem to be very much here and now. It is now important to at least have some idea of what might happen in the next three months, three years or 30 years.

Predicting the future is often a fool's errand, yet there can be value in looking at trends and trying to extrapolate on them. Philosopher Karl Popper and essayist and statistical researcher Nassim Nicholas Taleb make the distinction that there are two types of predictions: one tries to guess whether a specific event will transpire, while the other looks at events as ranges of probabilities. In the words of Popper, one cannot predict

which day a typhoon will arrive, due to chaotic, unpredictable dynamics, but we know for certain that it will arrive from a given direction. People in the affected area can prepare their houses on the affected side to avoid excessive damage.

In the same vein, instead of making specific predictions, we will try to present a look at tensions and change along a few crucial dimensions. Based on our projections along these axes, we can make educated guesses about probabilities regarding many future events, and we can use that to feel our way through this maze. We encourage you to make your own map, and see if it can be useful to you.

Map of the Future



Globalism vs localism

For a long time, it seemed that globalism was inevitable, that increasing specialization and integrated global markets were the path toward maximum prosperity for all. Then COVID-19 came along and highlighted the risk of an overly connected world in a stunning and devastating way. Financial Times writes that it has “[become increasingly obvious that 2006 was the peak year of globalisation.](#)”

Greater complexity can often lead to greater fragility. And in a world where the pie is perceived as shrinking, there could be an impulse to protect local markets. At the same time, localized markets lose out on the diversity and economies of scale of globalism, raising prices and reducing choice for consumers. McKinsey estimates that up to [26% of supply chains](#) could be moved in the next 5 years, while UPenn has calculated that the effective openness of the US to international investment flows decreased from [44% in 2010 to 31% in 2019.](#)

For many, the challenge will be to cut through the dichotomy and get to what matters. The solution is to differentiate what is supposed to be local (production of medicines, for instance) and what can be globalized (materials and innovation). Globalism provides ingredients, but localization provides independence. And one should not compromise independence.

Central banking vs. new economic structures

As economies were successively shut down by rolling lockdowns, central banks across the world sprang into action to stave off a crushing downturn. Through what seems like sheer force of will, the worst of the crash has been headed off. At the same time, the scale of the response has distorted world markets. Even before the pandemic, the BIS found that [central bank stimulus was distorting financial markets](#). While the S&P recovered, almost all of its gains were [driven by a small amount of tech stocks](#).

Ray Dalio, founder of Bridgewater Associates, has written about the “debt cycle” in his book [Principles for Navigating Big Debt Crises](#). The essence of his theory is a recurrent pattern where excessive debt to spur growth eventually leads to a depression, a deleveraging, and the restart of the cycle. It is possible that we will reach this point within the foreseeable future. This hard limit on central bank influence would force market participants to forge new paths forward, potentially leading to a new financial system.

Bitcoin is one potential candidate that a new economic structure could be built on. Investor Paul Tudor Jones has stated "[owning Bitcoin is a great way to defend oneself against the \[Great Monetary Inflation\]](#)", while Fidelity Digital Assets has framed Bitcoin's digital scarcity as "[essential for protecting against the depreciation of real value in the long run.](#)" If one is looking beyond the current paradigm of central banks, a good place to start would be Bitcoin.

The digital economy vs. the physical economy

2020 has been a terrific year for major tech companies. Schumpeterian creative destruction during the pandemic is leading many businesses to go bankrupt/insolvent, while [most new businesses are digital-first or digital-only](#). Economic conditions during the pandemic are shifting people's work and shopping habits to the digital realm, enabling digital platforms and markets to grow and undermine pricing power.

This is not unprecedented. During the 2007–09 crisis, the share of intangible assets as a proportion of total fixed investment spending rose by 7.5 percent, which suggests that [spending on intangibles may rise by 11 percent](#) over the next few years, primarily due to the work-from-home revolution reducing the value of physical assets. While the digital economy has not been [immune to the pandemic](#), the physical economy has been [devastated and left behind](#).



Source: www.csis.org

National governments are making an effort to bridge this divide. Some are investing in digital transformation programs, such as Japan, where the new Prime Minister is [making digital transformation a flagship policy](#). Other organizations, like the OECD and G20 Task Force on Digital Economy, are [developing](#) plans to generate rules for taxation of digital transactions to [align](#) the taxation of service providers within the digital space with their physical presence in jurisdictions where their economic activities take place. Finally, many central banks are seeking to stay ahead of evolving currencies and payments with [various Central Bank Digital Currency schemes](#). An understanding of the digital economy will be crucial for understanding the future economy.

Collectivism vs. individualism

This was a landmark year for initiatives like the Universal Basic Income. Many countries [kicked off UBI-style payments](#) for populations struck by the pandemic. US presidential candidate Andrew Yang even made UBI a core plank of his platform. We also saw actions like wearing a mask become [a referendum for personal freedoms and individualism](#). Hoarding behavior led to shortages for everything from toilet paper to ammunition.

Philosophical reflections are required to frame and understand the consequences and effects derived from the ongoing changes. The establishment of interdependencies between individuals is fundamental for the creation of social systems. In doing so, individuals inevitably lose part of their autonomy in pursuit of a collective purpose. Traditionally, the geographical location of individuals and organizations determined the possibility for establishing social relationships among them.

The current digital societies and social distancing are changing traditional paradigms. Individuals in pandemic-stricken areas are becoming detached from their local communities, while building and growing into new digital communities. Meanwhile, inequality that has arisen from globalization and massive central bank intervention is triggering calls to redistribute wealth. Understanding the sentiment and trends involved in each person's local community will be key.

Nation-states vs. new forms of organizing

Globalization, digitalization and other worldwide phenomena have changed the shape, scale and scope of many domains where governments traditionally exercised unique responsibility. And the coronavirus has torn apart the mirage of an increasingly

connected world as nations slammed their doors shut. At the same time that governments were placed at center stage, their guidance needed and expected, their limitations were also laid bare as responses were frustratingly uneven and fraught with politics. These days, as three important trends challenge the nation-state system, it is unclear whether the post-2001 model of liberal, rules-based globalization can continue.

First is the historical trend of increased regionalism. This is demonstrated by ongoing developments such as the debate around the [integration \(or disintegration\) of the European Union](#) or the formation of new alliances like the [Five Eyes intelligence group](#). These organizations could take some of the sovereignty out of the hands of nation-states, for goals of increasing economic competitiveness or national defense.

Next, transnational corporations are increasingly complementing or substituting public services traditionally provided by governments, whether this be Uber and Lyft replacing public transportation or other trends toward private-public coexistence in healthcare or education. Nomadic white-collar workers, in particular, may identify more strongly with their employers than their nationality.

Finally, there is the advent of decentralized organizations. These differ from traditional local governance in that they often use information technology to greatly increase their scope. Younger generations grew up with the Internet and have more friends online than in their physical neighborhoods. As they become median voters, pressures to internationalize digitally may coexist alongside nation-state interventions to address widening economic disparities, increasing debt, climate change and other global crises. Without a corresponding single global agent, they can coalesce into groups like Black Lives Matters or Occupy. And with blockchain technology, they have access to new tools like [Pangea](#).

Despite some movement towards decentralization and privatization, there exist spaces where nation-states remain uniquely positioned to wield primary if not sole responsibility. First, in matters where natural barriers to entry for private actors are in place, for instance in national defense, taxation, and legislation, where nation states exercise a unique monopoly. Relatedly, in the legal authority over political decisions of labor force, immigration, or deciding the official currency through the denomination of public obligations in that currency and the imposition of restrictions or outright bans on competing currencies. Third, in international matters where the nation-state remains the default unit of analysis and action, including in deciding international law, trade and investment agreements, market access, technical standards and other related economic and technological matters.

US centrism vs. multipolarism

The Trump administration has been vocal about dismantling the global order its predecessors set up, including [questioning the NATO military alliance](#), trying to [reduce US presence in the Middle East](#), and [terminating its relationship with the WHO](#). At the same time, multiple challenges to US hegemony have sprung up, in China, Iran, Venezuela and Russia.

For better or for worse, the world has not experienced another world war since the collapse of the USSR, with the US emerging as the most dominant power. But the decline of its dominance will be an opportunity for many other entities to fill the void. Up to now most multinational corporations have done business freely across state lines. In his book *Disunited Nations*, Peter Zeihan goes as far as predicting that US withdrawal will [greatly increase the risk of international trade](#), rewriting supply chains globally into regional spheres of influence, with market participants being forced to pick a side. We're seeing this in the fragmentation of the Internet, between the Huawei proposal [of a new Internet protocol](#) called New IP and [the US government's "Clean Network" initiative](#).

In the minds of many, a US-led quasi-peace is all that is known, especially in the thirty years since the collapse of the USSR. It's easy to forget how much is enabled by its existence. It would be worthwhile to reflect on where one wants to be if and when this world order ends.

Climate change vs. survival

If it has been easy to forget that we started this year with [massive fires in Australia](#) as grim reminders of the effects of climate change, the [wildfires raging across California](#) have thrust it back into the public consciousness. Fire is hardly the only effect of climate change. The [floods in China](#) are estimated to have displaced four million people and caused over \$20 billion in damage. As Greta Thunberg put in her speech at the UN: "[We are in the beginning of a mass extinction, and all you can talk about is money, and fairy tales of eternal economic growth.](#)"



Source: www.brookings.edu

As the effects of climate change start to take hold, people in stricken areas will find it increasingly hard to cope with the conditions. Researchers at the New York Times found that with every degree of temperature increase, roughly one billion people will be [living outside historical conditions for human survival](#). Many of these people will look to migrate to other areas of the world in hopes of finding better living conditions.

Alongside the direct effects of climate change, this migration could trigger massive changes in society. Especially in a world where global mobility is increasing, it's more important than ever to find the right location to place one's bets.

Conclusion

Based on these considerations, we can try to figure out how to align our interests with what the future looks like. And above all, remember that to turn back is only to succumb, and to be consumed. These issues show the direction for opportunities and innovation. We will need to work in order to create the future we want. The only way out is through!

About

[The Digital Economist](#) is a global impact organization with the mission to drive technological convergence towards a human-centered digital economy by bringing investable opportunities, in line with the Sustainable Development Goals, to the fore. For press inquiries, please reach out to press@thedigitaleconomist.com. For partnerships please contact directly : navroop@thedigitaleconomist.com.