The Future of Global Economic Power

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Which region(s) will come to dominate the world economy? This paper develops the Global Gaidar Model (GGM), a 17-region, 2-skills, 100-period OLG model, to address this and other questions. The model is carefully calibrated to 2017 UN demographic and IMF fiscal data. Productivity growth and its interaction with demographic change are the main drivers of future economic power. Fiscal conditions and automation matter are secondary factors. Our baseline simulations, which forecast productivity growth using each region’s long-term record, predict China and India becoming the world’s top two economic hegemons. GGM also predicts an evolving global savings glut, major reductions in world interest rates, substantial increases in tax rates in China and other regions due to population aging, and permanent differences in regional living standards. Our findings are, however, highly sensitive to productivity growth. If productivity growth continues at each region’s very recent pace, India will account for one third of 2100 world output and China for over one fifth. The US output share will grow slightly. Under other scenarios, productivity growth in China and India dramatically slows; Sub Saharan Africa’s sky rockets, leaving China’s plus India’s 2100 output share at only 16 percent and Africa’s at an astounding 17 percent.

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