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Analysis of today
Assessment of tomorrow

By: Tomorrow's Affairs Staff

Why is the world entering the most dangerous economic decade since WWII?

In its June report, the World Bank lowered its global growth forecast for 2025 to 2.3 per cent, which is below the previous expectation of 2.7 per cent. At first glance, these rates still seem solid, especially for a world still recovering from the effects of the pandemic and energy disruptions.

In reality, however, this means that the global economy is heading for its slowest average growth since the 1960s.

If looking at the period from 2020 to 2030, average global GDP growth is expected to remain below 2.5 per cent. The last six decades have not recorded such an average. The World Bank itself speaks of a potentially lost decade in which cumulative growth could be so weak that the long-term consequences will be felt at the level of living standards in almost all regions.

Protectionism is stifling the global economy

The main reasons for this scenario lie in a combination of structural and political factors. The first reason is the trade barriers that have been intensified in recent years. During Donald Trump's first term in office, the United States embarked on an expansive tariff policy towards China, Mexico, and even its traditional European allies.

Now, in his second term, further tariff increases are being announced, which could affect not only steel, cars, and pharmaceuticals but also the broader consumer electronics and agricultural sectors.

Trade barriers not only affect bilateral relations but are passed on through global supply chains. Products become more expensive, investment slows because companies do not know what the trade regime will look like in the next two to three years, and consumers postpone higher spending because of uncertainty about inflation and possible recession. In this atmosphere, countries that rely on the export of raw materials or parts for complex industrial products are feeling the blows the most.

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What is particularly worrying is that the World Bank's report states that removing only half of the current trade barriers could increase global growth by around 0.2 percentage points per year over the period 2025-2026.

This shows that the structure of current protectionism is literally stifling the global economy. Although it is a small percentage, this means hundreds of billions of dollars in additional production and income for the global economy.

Inflation and slow growth

Another important factor in the slowdown is the fiscal and monetary contraction of industrialised countries. After a decade of ultra-cheap money, central banks in the United States, the European Union and Japan have tightened their interest rates to curb inflation, which has exploded following the pandemic and the war in Ukraine.

As expected, this has curbed spending, increased borrowing costs for companies and reduced investment appetite. While the financial markets have somewhat stabilised, the real economy is now feeling the effects of higher interest rates due to lower corporate investment and weaker demand for new loans.

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The third element is the demographic structure of developed countries and China itself. In many large economies, the workforce is stagnating or shrinking. In Japan, Germany, and Italy, this has been the case for years, while China is seeing a decline in its working-age population for the first time.

Without migration flows or productivity shocks, this will reduce growth potential in the long term. In its analysis, the World Bank emphasises that developing countries with young populations are not investing enough in education and health, which makes it even more difficult to meet the global demand for a workforce.

A return to stagflation?

In terms of concrete figures, the forecast for developed economies for 2025 has been lowered to an average of 1.2 per cent. For the United States, it is around 1.4 per cent, while Europe and Japan are even weaker at around 0.7 per cent. The developing countries, including Southeast Asia, Latin America and sub-Saharan Africa, are still at a solid 3.8 per cent, but this is also below the historical standards of over 5 per cent in previous decades.

There is also a risk that the slowdown in the US will further destabilise global capital flows. The US dollar is the basis of global liquidity. If the US economy slows, investors will retreat into safer bonds, increasing borrowing costs for developing countries.

These are already under pressure from high interest rates and rising debt services as many governments use foreign borrowing to cover budget deficits. The World Bank has explicitly warned that the combination of weak growth and high interest rates could lead to debt crises in more than two dozen low- and middle-income countries.

> The global economy could face stagflation, which is the most dangerous possible combination for countries with a small industrial base

At the same time, inflation has not completely disappeared. Although the inflation rate in industrialised countries is returning to around 3 per cent—twice as high as before the pandemic— food and energy prices remain volatile in many poor countries.

Geopolitical tensions, particularly in the Middle East and around Taiwan, are creating additional uncertainty that could push the oil price beyond psychological limits in no time at all.

In such a scenario, the global economy could face stagflation, a combination of low growth and rising prices again, which is the most dangerous possible combination for countries with a small industrial base.

Slower than the 1960s

Putting all this in the same framework, the conclusion is that the world is entering a decade that will most likely be slower in growth than any of the 1960s to date. The last time global GDP recorded multi-year average growth of less than 2.5 per cent was after the oil shocks of the 1970s and the debt crisis in Latin America in the 1980s. Back then, the consequences were dramatic: mass unemployment, falling living standards and political instability in many parts of the world.

What could reverse the trend?

Firstly, the lowering of trade barriers. The World Bank shows very clearly that trade liberalisation has a direct positive impact on global growth.

Secondly, accelerated investment in green and digital infrastructure could create new sectors with high added value.

This moment could be the last chance to avoid a deep structural crisis in the global economy - The World Bank

Third, tax reforms in countries with high deficits, focusing in particular on productive spending, can restore investor confidence and lower borrowing costs.

Without such measures, the world could remember the next decade as a lost one. For millions of people in Asia, Africa and Latin America, this would mean a slower climb out of poverty. For industrialised countries, the slowdown could bring new political issues, the rise of populism and widening social divisions.

This is precisely why it is important that the World Bank's warnings are taken seriously and that global policymakers start working on policy harmonisation that will trigger sustainable growth.

This moment could be the last chance to avoid a deep structural crisis in the global economy that could last much longer than today's forecasts predict. And that future generations do not have to pay the price that today's political leaders are only trying to avoid through short-term calculations.