Foreword

The overlapping crises of the past few years have ended a span of nearly three decades of sustained economic growth that brought the world a massive reduction in extreme poverty. Starting in 1990, productivity surged, incomes rose, and inflation fell. Within a generation, about one out of four developing economies leaped to high-income status.

Today nearly all the economic forces that drove economic progress are in retreat. In the decade before COVID-19, a global slowdown in productivity—which is essential for income growth and higher wages—was already adding to concerns about long-term economic prospects. In this decade, total factor productivity is expected to grow at its slowest clip since 2000. Investment growth is weakening; the 2022-24 average will be half that of the previous two decades. The global labor force is also growing sluggishly as populations age in advanced economies and many emerging-market and developing economies (EMDEs). In addition, reversals in human capital triggered by the health shock, school closures and learning losses will have long-lasting effects on the growth of potential output. International trade—which from the 1990s through 2011 grew twice as fast as GDP growth—is now barely matching it.

The result could be a lost decade in the making—not just for some countries or regions as has occurred in the past—but for the whole world. Without a big and broad policy push to rejuvenate it, the global average potential GDP growth rate—the theoretical growth rate an economy can sustain over the medium term based on investment and productivity rates without risking excess inflation—is expected to fall to a three-decade low of 2.2 percent a year between now and 2030, down from 2.6 percent in 2011-21. That’s a steep drop of nearly a third from the 3.5 percent rate that prevailed in the first decade of this century. The decline in potential GDP growth will also be sharp for developing economies, largely because of low investment rates: from an annual average of 6 percent between 2000 and 2010 to an average of 5 percent in 2011-21 and 4 percent over the remainder of this decade.

This broad-based slowdown in the growth rate of potential GDP has profound implications for the world’s ability to tackle the growing array of challenges unique to our times. An economy’s potential GDP growth rate sets boundaries on key policies affecting development—including the level of benchmark interest rates, the range of possible government spending, and the expected size of returns to investors.

The potential growth rate can be raised through policies that grow the labor supply, increase productivity, and incentivize investment. Our analysis shows that, if all countries make a strong push, potential global GDP growth can be boosted by 0.7 percentage point—to an annual average rate of 2.9 percent. That would convert an expected slowdown in potential GDP growth into an acceleration. This book lays out an extensive menu of policies to boost growth and highlights six priority interventions:

- **Increasing investment**: A major global push for greater investment to achieve development and climate goals, without undermining fiscal sustainability, could
boost potential growth rates by as much as 0.3 percentage point per year. Business-enabling reforms can be carried out to address a range of impediments to private sector development, such as high business startup costs, weak property rights and corporate governance, inefficient labor- and product-market policies, and shallow financial sectors. Investments aligned with climate goals—such as in transportation and energy, climate-smart agriculture and manufacturing, and land and water systems—can increase long-term growth and economic resilience to natural disasters.

- **Aligning monetary and fiscal frameworks**: Robust macroeconomic policy frameworks are critical to support investor confidence and can moderate the ups and downs of business cycles. They help countries attract investment by instilling investor confidence in national institutions, policy making, and currencies. Such frameworks are most effective when monetary and fiscal policies are aligned in their purpose. They should prioritize inflation, debt, fiscal prudence, and financial-sector stability.

- **Cutting trade costs**: Trade costs—mostly those associated with shipping, logistics, and regulations—can double the cost of internationally traded goods. Countries with the highest shipping and logistics costs could cut their trade costs in half by adopting the trade-facilitation practices of countries with the lowest shipping and logistics costs. Moreover, trade costs can be reduced in climate-friendly ways—by removing the current bias toward carbon-intensive goods inherent in many countries’ tariff schedules and by eliminating restrictions on access to environmentally friendly goods and services.

- **Capitalizing on services**: As international trade in goods has ebbed, the services sector has become an increasingly important engine of growth for developing economies. Exports of digitally delivered professional services related to information and communications technology climbed to more than 50 percent of total service exports in 2021, up from 40 percent in 2019. Developing economies enjoy significant room to grow in this area because of their limited use of such technology in everyday interactions. This requires a renewed focus on education and skills, particularly language and digital skills.

- **Upping labor-force participation**: If overall labor-force participation rates, especially among women and older workers, could be boosted to match the best ten-year increase on record, this could increase global potential growth rates by 0.2 percentage point on average by 2030. Globally, average female labor force participation remains three-quarters that of men, and the gap is even larger in EMDEs. In some regions, such as South Asia and the Middle East and North Africa, an increase in female labor-force participation rates to match the EMDE average could boost their potential GDP growth by as much as 1.2 percentage points a year by 2030. Increasing the average participation rate of workers aged 55 years or older—which is about half that of 30-to-45-year-old workers—is similarly valuable, but will require further investments in work ability, retraining and new skills.

- **Strengthening global cooperation**: From 1990 through the mid-2010s, the global economy fired on nearly all cylinders partly because of broad-based international
cooperation following the breakup of the Soviet Union. That cooperation has since faltered. Effective new methods of cooperation—on trade, climate, finance, debt transparency, fragility, health and infrastructure, to name a few—will be essential if the world is to mobilize the investment that will be needed to achieve sustainable growth and poverty alleviation.

An extraordinary series of setbacks has brought the world to another crossroads. It will take an exceptional mix of focused policies and effective international cooperation to revive growth. The World Bank Group is fully engaged in helping countries design and implement policies and projects that boost growth and median incomes while fostering environmental sustainability and resilience.

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