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Global Megatrends That Challenge Latin America

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ABSTRACT.

This working paper presents the main challenges that Latin America will face in the coming years, within a global context of greater fragmentation, conflict, and disorder, known as "Cold Peace".

Over a medium and long-term time horizon, it is possible to identify 5 megatrends: climate change and energy, new technological developments, population, inequality and emerging middle classes, and urban development.

The region should avoid the risk of irrelevance and isolation, especially in the face of the geopolitical and economic transition towards Asia as the new center of gravity. Therefore, Latin America needs to enhance its capacity to influence and to address the most critical issues such as creation of wealth and prosperity, peace and social inclusion, and productivity.

Keywords: Latin America, megatrends, Cold Peace, multilateralism, United States, China, Asia, climate change, energy, new technological developments, population, inequality, middle classes, urban development

1. INTRODUCTION

Latin America in the coming years will face a series of challenges associated with the megatrends moving the world to new limits yet to be deciphered. We are in transition from a period of relative stability to one of greater fragmentation, conflict, and disorder, known as "Cold Peace". New global actors, ideas, and interests are emerging that will redefine the post-war international system and its governance.

Multilateralism will be tested as well as the ability of the United Nations to respond to internal divisions and conflicts. Geopolitical rivalries will sharpen and become increasingly intense between those who defend liberal democracy and the market economy vs. illiberal democracy and state capitalism. At stake is the legitimacy of governments and the validity of political regimes. Its greatest expression is the competition and distrust between the United States and China, which is accompanied by revisionist actors such as Russia, Iran, and North Korea.

Beijing has made it clear that it is a world power, demanding its own place and respect in the international arena and will use its power against all those who try to contain it in the execution of its project. It has begun to take an active role, putting aside its tradition of not interfering in the internal affairs of other countries or imposing its will. In other words, the "Dragon" has awakened and is attempting to dislodge Washington in Asia, in political, economic, and military terms, and subsequently counteract it globally. A clear example of this leadership is the successful mediation conducted recently for the restoration of relations between Iran and Saudi Arabia, which has allowed President Xi Jinping to enhance his presence in the Middle East, or his proposal as a "responsible negotiator" in the war in Ukraine. These developments signal a new stage in China's diplomatic status around the world, according to Wang Zaibang, a senior fellow at Taihe Institute (Abril, 2023).

The race –in course– will also be for the leadership of key industries for the future, such as information technologies, robotics, renewable energies, electric cars, biotechnology, medicine, aerospace equipment, agricultural machinery, among others. In the military field, technological development will lead to increasingly sophisticated and lethal weapons, with nuclear capability and the use of artificial intelligence (Roubini, 2022).

To broaden its scope and influence, the People's Republic has launched a series of cooperation agreements, alliances, and projects. Examples of this include: the Global Security Initiative (GSI), announced at the 2022 Boao Forum, to promote common, comprehensive and sustainable security; the Silk Road Economic Belt; its intention to be part of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Digital Economy Partnership Agreement (DEPA); the creation of the New Development Bank (NDB) which brings together the BRICS, and the Asian Infrastructure Investment Bank (AIIB); the proposal for an alternative payment system to SWIFT, known as CIPS; the RMB as the world's payment currency; and the issuance of digital currencies.

It will come as no surprise in the future to observe greater disruptions of global supply and consumption chains, as well as the implementation of concepts such as deglobalization, decoupling, nearshoring,

friendshoring or enegyshoring. Trade, services, and technology will attract all the attention (Mahbubani, 2008, 2013, 2019).

It remains to be seen how the United States will react to these new challenges; the combination and use of "hard" and "soft" power; the strength of the transatlantic alliance; consensus-building and multilateral solutions; and the new strategic alignments being consolidated with the emerging regional powers. It is clear, however, that Washington will continue to play a decisive role in global geopolitics and economy.

2. MEGATRENDS

In this context, megatrends should be understood as geostrategic and macroeconomic forces that are shaping the planet. They are supported by verifiable data and involve some of society's biggest challenges and opportunities, according to PwC (PwC, 2016). The European Strategy and Policy Analysis System (ESPAS) defines them as developments that are already underway and that are almost impossible to change over the next decade (Gaub, 2019). These are irreversible certainties that we face.

In an exercise of variable geometry, these edges have different speeds and effects in regions and countries and their intensity is also a function of internal factors such as the solidity and quality of democratic institutions, the economy, society and business climate.

Over a medium and long-term time horizon, the following can be identified that are cardinal for emerging economies and will change the reality in which we live (Kohli, H. & Nag R. & Vilkelyte I. 2022, Gaub, 2019, and Roubini. 2022).

2.1. Climate change and Energy: This is considered the systemic challenge that will define the existence of humanity, given the current tensions of greater energy consumption, temperature increase, and increasing natural disasters. Latin America should be put forward here as a solution region.

Climate change has to date affected 85% of the world's population and 80% of territories. Public policy responses and strong cooperation –at the level of governments, private sector, civil society, international institutions– are required in regard to climate change adaptation and mitigation, biodiversity degradation, ecosystem collapse, and significant increases in carbon emissions. The achievement of these goals is directly linked to poverty reduction.

Competition for resources will, in turn, generate rigidities and open important spaces for the development of new energy sources and the development of renewables, thus reducing dependence on fossil fuels.

It is necessary to move on from the Conferences of States Parties (COP) to effective action and accelerate the transition to green energy, avoid fragmentation and deficits in natural resources such as water, whose scarcity is affecting more than 3,000 million people. This megatrend has adverse effects on cities, as well as on agricultural production and food security, jobs, and migration.

- 2.2. New technological developments:** Artificial intelligence, robotics, big data, and new technologies will mark the IV Industrial Revolution and will transform societies with positive and negative implications.

By 2060 AI will be present in all spheres and undertake tasks that were previously considered only within the scope of human beings. Hyperconnectivity will constitute an element of plurality, but also of vulnerability, dispute, and global competition. Cyberspace is proof of this, with virtual battles between states and non-state actors. Whoever controls and leads these fields will have an important advantage in global geopolitics.

The displacement of jobs by automation and its effect on wages will be a pattern. The form and structure of work will change and affect a wide range of sectors such as education, health and even the creative industries. Projections indicate that 50% of jobs will be affected in the next two decades.

An increasingly interconnected and vocal civil society is seen as a valuable tool to strengthen local and global governance. Information will inherently have privacy risks and will travel in an accelerated manner, requiring faster and more robust responses, in increasingly limited times for reflection and analysis.

- 2.3. Population:** The world will be immersed between demographic trends of growth and aging. In 2064 the population will peak at 9,6 billion people and subsequently, in 2100 will decline to 8.7 billion. By this latter date, countries such as Japan, Thailand, and Spain will see their population reduced by 50% (compared to 2017 figures).

India, Nigeria, China, the United States, and Pakistan will be the most populous nations. Africa will be the region with the youngest people, while Europe, Asia, and Latin America will face significant challenges regarding an ageing population. Life expectancy will increase thanks to advances in science and medicine. Indeed, by 2030 women in South Korea will have a life expectancy of 90 years, in France 88 years, and in Africa 64 years.

The situation of young people in developing countries is striking. Their conditions of unemployment and dissatisfaction with low incomes will generate high levels of frustration and unrest.

For some analysts we are facing a "demographic time bomb", due to the implications it has in terms of pensions and their fiscal impact, health systems, productivity, social conflict, and migration.

- 2.4. Inequality and emerging middle classes:** Although we are heading towards a greater reduction in inequality between nations, at a domestic level in countries the opposite is occurring. Disparities will widen -in terms of wealth and income- which will contribute to poor economic performance, weak political institutions, and acute social problems.

The strengthening of the middle classes stands out as one of the main characteristics of this century. According to projections by Centennial Group, 80% of the world's population will be middle class and high-income by 2060. 4 billion people in emerging economies will integrate this segment in the next 40 years. The vast majority of the inhabitants of East Asian countries will achieve it, while in Latin America and Africa this figure will be 66% and 50% respectively.

The new middle classes are important agents of change. Their role is key to greater social cohesion, less conflict and breaking with the intergenerational transmission of inequality. The consolidation of this position will be decisive.

- 2.5. Urban Development:** The world will experience the rapid growth of cities, which will become the main engines of development. They will generate 70% of the world's gross domestic product by 2030, but they will also be a focus of social inequality and environmental pollution. Together they will consume 60-80% of energy resources and will be responsible for 70% of emissions.

Today 56% of the world's population lives in urban areas and by 2060 it will rise to 72%. While Latin America is the most urbanized region, this growth will occur mainly in Sub-Saharan Africa and Southeast Asia. China, India, Nigeria, and Pakistan will add an additional 1 billion people to cities. Megacities will grow from 33 to 50 in the next three decades.

These dramatic transformations are generating important challenges in terms of adaptation and mitigation, water and sanitation, education, health, infrastructure, safety, and public administration. The role of financing will be critical in meeting growing needs.

Public policy must be directed towards building smarter, more sustainable, and more livable cities.

3. FINAL COMMENTS

In these scenarios, Latin America must take an active stance and avoid the risk of irrelevance and isolation, especially in the face of the geopolitical and economic transition we are witnessing with regard to Asia as a new center of gravity. In 2060 it will concentrate around 55% of global GDP (Kohli, H. & Nag R. & Vilkelyte I. 2022).

Our call is to dwell on the future and the new roadmaps highlighted by the connectivity, interdependence, and plurality of the international system. The current situation of inflection and instability contributes positively to the reordering of societies. This process must articulate three critical variables: institutions, leadership, and ideas.

The region must imperatively aim –without hesitation– to enhance its capacity to influence and create a network of alliances that allow the most critical issues to be addressed. We must create greater wealth and prosperity; promote peace and social inclusion; and boost productivity. We have time to avoid the trap of being paralyzed by the evolution of history and the ideological discourses characteristic of the last century. Today is the time to build tomorrow, in communion with institutions and democratic principles.

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