

## Which economies will grow again in 2021?

**China is first to recover from the pandemic and will close out 2020 with 1.8% growth. What other economies will join China and grow in 2021? Which ones will have to wait for 2022 or even beyond?**



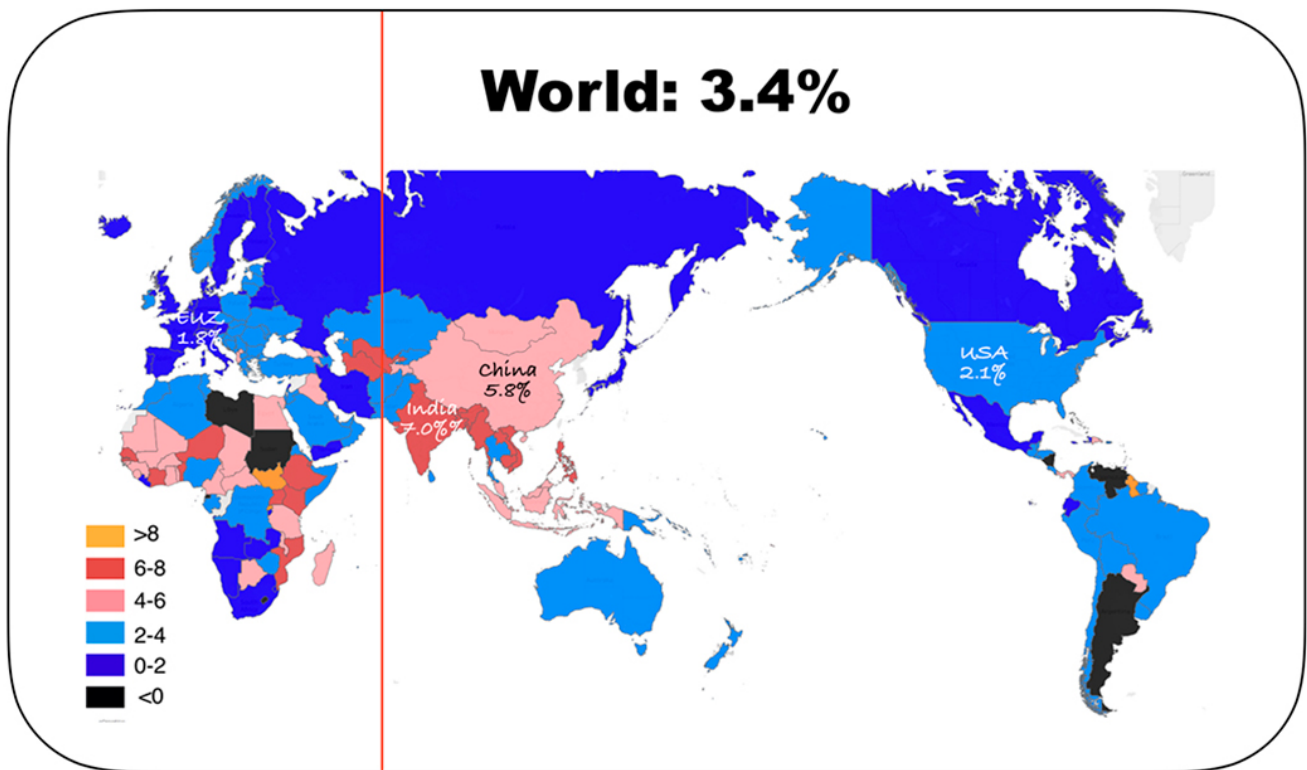
December 18, 2020

By [\*\*Javier Díaz-Giménez\*\*](#)

In 2019, the global economy seemed happy, care- and mask-free. World GDP was projected to grow at a healthy rate of 3.4% in 2020; no one had heard of COVID-19; and the main concerns of the day were: China's slowing economic growth (how soft its landing would be), whether the U.S.'s longest economic expansion on record was going to die of old age, and the impact of Brexit (whether it would be hard, soft or nonexistent) on the Eurozone's feeble

growth rate.

**Figure 1: October 2019 forecast for real GDP growth in 2020**



Source: The International Monetary Fund (IMF)

Still, the IMF's real GDP growth-rate forecast map (from October 2019) was multi-colored. Argentina, Venezuela, Libya, and Sudan were the only major economies forecasted to shrink, and, therefore, painted in black. Pretty much the same business environment that had lasted for a decade in those four places.

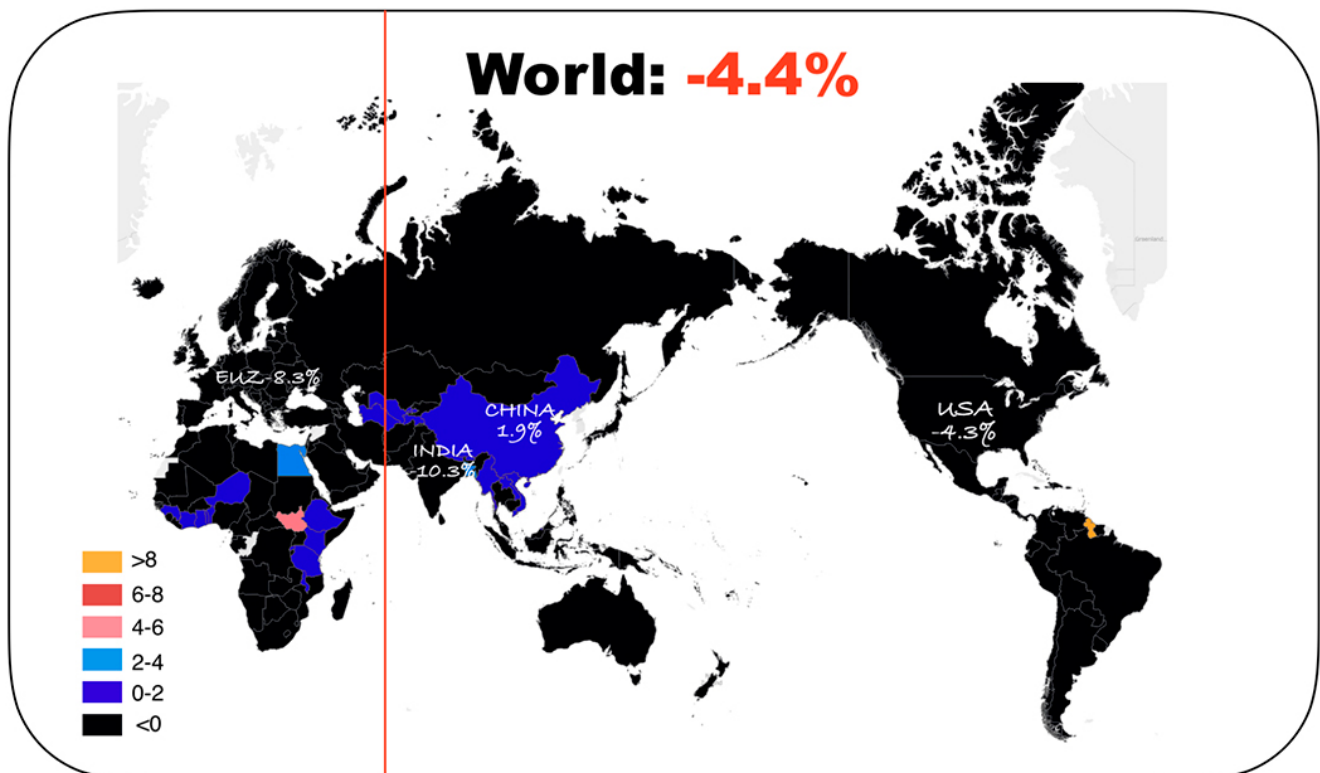
The 2019 map above is only strange for one reason: My choice for the reference meridian is 69 degrees east of Greenwich. That meridian will be the world's economic center of gravity for 2022 according to Danny Quah's calculations (see Quah, D. 2011. [The Global Economy's Shifting Centre of Gravity](#). *Global Policy* 2: 3-9.).

For those of you who are not geography geeks, the 69th meridian east passes through Pakistan, somewhere between Dubai and Bangalore. Since the reference meridian is an arbitrary choice and the jolly good old days of the British Empire are over, I like my maps to put the world economic center of gravity front and center. In doing so, we're forced to remember that the Atlantic-centered days are following the path of the British Empire and,

when we think about the global economy, we really should center on China.

Then COVID-19 hit the planet like a ton of bricks. Proximity and mobility became prohibitively expensive and most of the global economy went into lockdown, with strict restrictions on activity and mobility imposed. Airplanes stopped flying, many supply chains were disrupted, most business models were impacted, and the global economy went into shock. The IMF's growth forecast plummeted like never before and the growth map of the world turned almost entirely black.

**Figure 2: October 2020 forecast for real GDP growth in 2020**

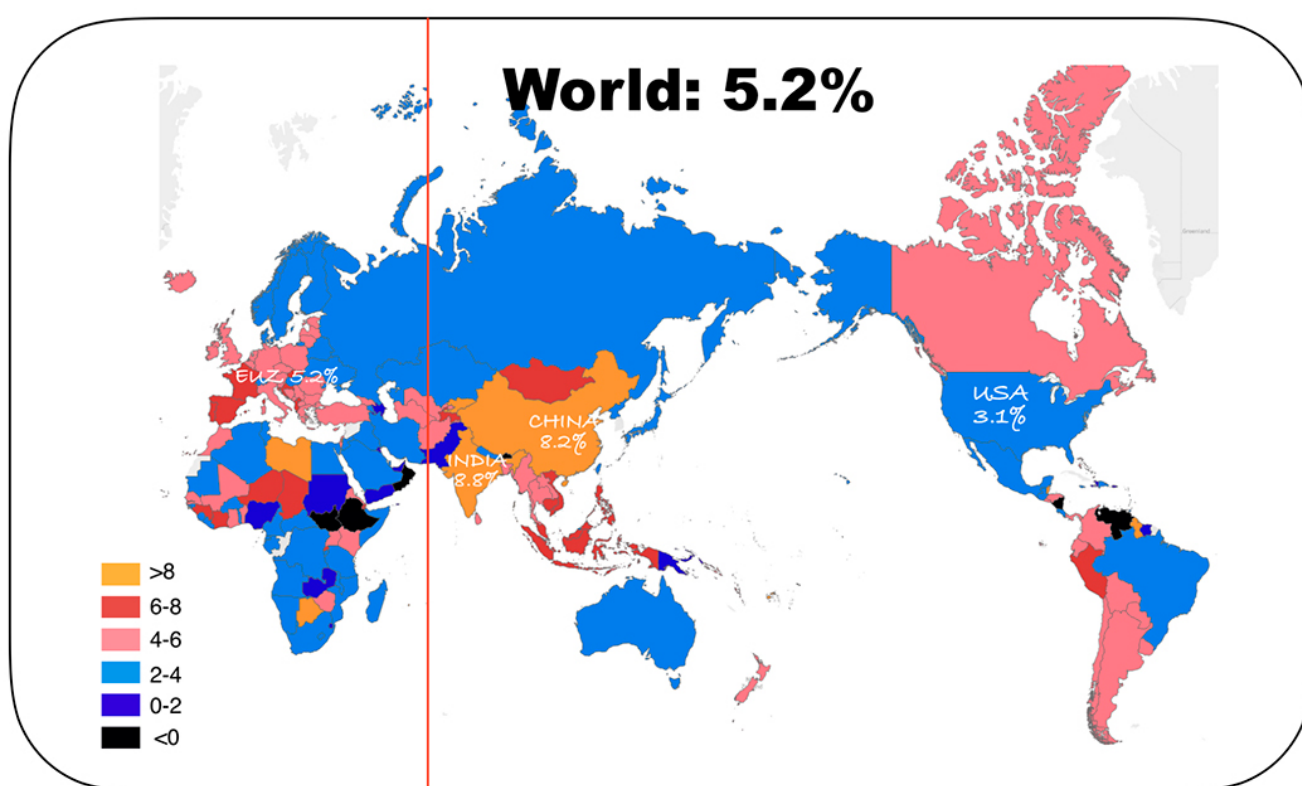


Source: IMF

Figure 2 plots the real GDP growth rates for 2020 forecasted by the IMF in October 2020. Out of the 192 countries of the world for which the IMF reports data, the GDPs of 167 of them were forecasted to shrink. This has never, ever happened before in the 75 years of the IMF's existence. Of course, the rates at which the GDP is expected to shrink differ widely across the countries in the sample. They range from the minimal -0.3% in Uganda to the dumbfounding -67% in Libya. Spain, with a forecasted GDP contraction of -12.8%, ranks 178th out of 194. The 2020 COVID-contraction has indeed been a record breaker for many reasons.

But don't despair. Look at the IMF's growth forecast for 2021 which I have plotted in the map below (Figure 3). According to the IMF, in 2021 GDP growth will return with a vengeance and the map of the world will light up like a Christmas tree once again. With the arrival of the vaccines -- fingers crossed -- the relative prices of mobility and proximity will fall substantially, restrictions on activity and mobility will be lifted, and the growth rate of the world economy is forecasted to spike by 9.6 percentage points -- from -4.4% in 2020 to +5.2% in 2021. Moreover, this time around, the forecast risks are mostly on the upside because October 2020, when the forecast was published, was before the news of the vaccines was out.

**Figure 3: October 2020 forecast for real GDP growth in 2021**



Source: IMF

The tale that these three maps tell is that 2020 has been a truly exceptional year for the global economy. So much so that it makes very little sense to compare 2020 with 2019 or any of the years that came before. As far as the global economy is concerned, the 21st century will have -- at least -- three clearly distinct subperiods: the pre-COVID-19 period, the COVID-19 period, and the post-COVID-19 period. This will be similar to what happened in the 20th century with the two World Wars.

The differences in relative prices and economic conditions across these three subperiods are so large that it makes little sense to compare them or to compute growth rates that jump across the COVID-19 lines. If the IMF's forecast turns out to be correct, and worldwide growth returns in 2021, in most economic data series 2020 will be a year unto itself. Moreover, growth rates that change signs and jump all over the place are hard to understand. A spike in growth rates that comes after a large contraction must be put in perspective.

The table below (Figure 4) helps us do just that. It uses a different database and more recent forecast: the OECD's December 2020 GDP growth forecast for 2020, 2021, and 2022. The first three numerical columns of that table contain the GDP growth rate forecasts for those years. In the fourth column, I have normalized the GDP levels for 2019 for every country or region. In the next three columns I have used the growth forecasts to calculate the GDP levels for 2020, 2021, and 2022. I highlight in yellow the cells that show GDP levels greater than 100. That is, they represent economies whose GDPs were larger (in 2020-2) than they were at the end of 2019 and thus had recovered from the coronavirus contraction.

**Figure 4: December 2020 forecasts for real GDP growth in 2020, 2021, and 2022**

|                | ΔGDP 2020 | ΔGDP 2021 | ΔGDP 2022 | GDP 2019 | GDP 2020 | GDP 2021 | GDP 2022 |
|----------------|-----------|-----------|-----------|----------|----------|----------|----------|
| China          | 1.8       | 8.0       | 4.9       | 100      | 101.8    | 109.9    | 115.3    |
| South Korea    | -1.1      | 2.8       | 3.4       | 100      | 98.9     | 101.7    | 105.1    |
| G20            | -3.8      | 4.7       | 3.7       | 100      | 96.2     | 100.7    | 104.4    |
| World          | -4.2      | 4.2       | 3.7       | 100      | 95.8     | 99.8     | 103.5    |
| USA            | -3.7      | 3.2       | 3.5       | 100      | 96.3     | 99.4     | 102.9    |
| Australia      | -3.8      | 3.2       | 3.1       | 100      | 96.2     | 99.3     | 102.4    |
| India          | -9.9      | 7.9       | 4.8       | 100      | 90.1     | 97.2     | 101.9    |
| Russia         | -4.3      | 2.8       | 2.2       | 100      | 95.7     | 98.4     | 100.5    |
| Germany        | -5.5      | 2.8       | 3.3       | 100      | 94.5     | 97.1     | 100.4    |
| Canada         | -5.4      | 3.5       | 2.0       | 100      | 94.6     | 97.9     | 99.9     |
| France         | -9.1      | 6.0       | 3.3       | 100      | 90.9     | 96.4     | 99.5     |
| Eurozone       | -7.5      | 3.6       | 3.3       | 100      | 92.5     | 95.8     | 99.0     |
| Brazil         | -6.0      | 2.6       | 2.2       | 100      | 94.0     | 96.4     | 98.6     |
| Japan          | -5.3      | 2.3       | 1.5       | 100      | 94.7     | 96.9     | 98.3     |
| Italy          | -9.1      | 4.3       | 3.2       | 100      | 90.9     | 94.8     | 97.8     |
| Mexico         | -9.2      | 3.6       | 3.4       | 100      | 90.8     | 94.1     | 97.3     |
| Spain          | -11.6     | 5.0       | 4.0       | 100      | 88.4     | 92.8     | 96.5     |
| United Kingdom | -11.2     | 4.2       | 4.1       | 100      | 88.8     | 92.5     | 96.3     |
| Argentina      | -12.9     | 3.7       | 4.6       | 100      | 87.1     | 90.3     | 94.5     |

Source: OECD

In 2020, China is the only region in the sample meeting this criterion. In spite of this, by the end of 2020 it will have grown by a mere 1.8% -- 4 percentage points short of what the IMF had forecasted in October 2019. Back then, no one would have imagined such a hard landing.

By the end of 2021, the OECD forecasts that the Chinese GDP will be almost 10% larger than it was at the end of 2019. It also expects South Korea and the collective GDP of the G20 countries to have recovered. By the end of 2022 the global economy will be back to historical maxima, and so will the United States, Australia, India, Russia, and Germany. The laggards will be Argentina, the United Kingdom, and Spain.

But, keep in mind: the IMF and the OECD forecasts could be wrong. Remember Yogi Berra's famous, yet perhaps apocryphal, quote: "It's tough to make predictions, especially about the future." And it's even tougher in these high-variance, strange and troubled times that, perhaps, are coming to an end. But, if the forecasts come true, Christmas of 2020 -- may it be merry -- is high time to start thinking about the post-COVID-19 economy.

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