

Centre for the New Economy and Society

# Chief Economists Outlook

May 2023



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# Chief Economists Outlook

## May 2023

This quarterly briefing builds on the latest policy development research as well as consultations and surveys with leading chief economists from both the public and private sectors, organized by the World Economic Forum's Centre for the New Economy and Society.

It aims to summarize the emerging contours of the current economic environment and identify priorities for further action by policy-makers and business leaders in response to the compounding shocks to the global economy from geoeconomic and geopolitical events.

The survey featured in this briefing was conducted in March-April 2023.

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# Executive summary

The May 2023 Chief Economists Outlook launches amid continuing uncertainty for policy-makers, businesses and households as persistent headwinds buffet the global economy. While there are signs of nascent optimism, the banking disruption of March 2023 has caused tremors in the global outlook.

Moreover, the marked dispersion of responses to some questions in the latest Chief Economists Survey suggests that there is little consensus about how to interpret and weigh the latest economic data and developments. The expectations around a potential global recession in 2023 are a case in point: 45% of chief economists say a recession is likely, but the same proportion considers it unlikely.

Regionally, there has been a notable strengthening of expectations for most economies since the January 2023 Chief Economists Outlook. Perhaps unsurprisingly, the most buoyant economic activity is expected in Asia, with China's reopening projected to bolster activity across the continent. For China itself, chief economists are near unanimous in expecting a significant rebound this year.

At the other end of the spectrum, 75% of chief economists still expect weak or very weak growth this year in Europe, while for the US, views are divergent as the

country's growth prospects are clouded by heightened uncertainty around financial stability and the pace and extent of monetary tightening.

The chief economists expect equally divergent regional inflation outlooks for 2023. Headline rates have begun to ease, but core inflation is stickier than anticipated and shows signs of picking up. The pressure on many households remains acute, and more than three-quarters of respondents expect the cost of living to stay at crisis levels in numerous countries throughout 2023.

The recent banking instability has complicated efforts to deal with runaway prices. Almost 80% of chief economists think central banks now face a trade-off between managing inflation and maintaining financial sector stability. A similar proportion expect central banks to struggle to reach their inflation target.

Although the chief economists are broadly sanguine about the systemic implications of the recent financial disruption – 69% characterize it as isolated episodes rather than signs of systemic vulnerability – they point to potentially damaging knock-on effects. These include a squeeze on the flow of credit to businesses and the prospect of significant disruption in property markets in particular.

Turning to broader structural shifts in the global economy, almost three-quarters of the chief economists surveyed expect assertive industrial policy to become increasingly widespread over the next three years. Respondents highlighted a number of concerns with this development, with significant proportions cautioning that it will deepen geoeconomic tensions (91%), stifle competition (70%) and lead to a problematic increase in sovereign debt levels (68%).

Industrial policy is also expected to contribute to ongoing changes in the geography and composition of the global economy. When asked about the business strategies that are likely to determine the shape of global supply chains over the next three years, the chief economists highlighted adaptation to geopolitical faultlines (94%), prioritization of resilience over efficiency (91%), diversification of suppliers (84%) and an increasing focus on environmental sustainability (77%).

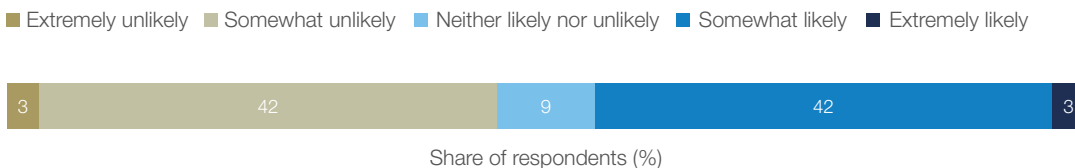
# 1. The weight of uncertainty

## Broad-based growth remains elusive

While there are signs of nascent optimism in the latest survey of chief economists, it also reveals striking uncertainty about the trajectory of the world economy. The chief economists' responses highlight the continuing ambiguity that clouds many economic developments, which in turn makes it difficult for policy-makers, businesses and households to plan for a future that is unusually unclear.

For example, when asked about the likelihood of a global recession in 2023, 45% of respondents said it was somewhat or extremely likely, but the exact same proportion said it was somewhat or extremely unlikely (see Figure 1). This polarized response suggests that there is little consensus about how to interpret and weigh the emerging data about the health of the global economy, a pattern that may have been intensified by the fact that the survey was carried out during the volatile period of financial distress that followed the collapse of Silicon Valley Bank (discussed in section 2).

**Figure 1. Global recession outlook**  
How likely is a global recession in 2023?



**Note:** The numbers in the graphs may not add up to 100% because figures have been rounded up/down.

**Source:** Chief Economists Survey, April 2023

The overarching economic backdrop is one of persistently patchy global growth.<sup>1</sup> In its latest *World Economic Outlook*, the International Monetary Fund (IMF) forecasts global growth of 2.8% this year and annual average growth of around 3% over the next

five years. Moreover, this forecast rests on an uptick in economic activity in China and a number of emerging markets; the IMF foresees an anaemic growth performance by the world's advanced economies over the medium term.<sup>2</sup>

1 Foreign Affairs, March 2023.

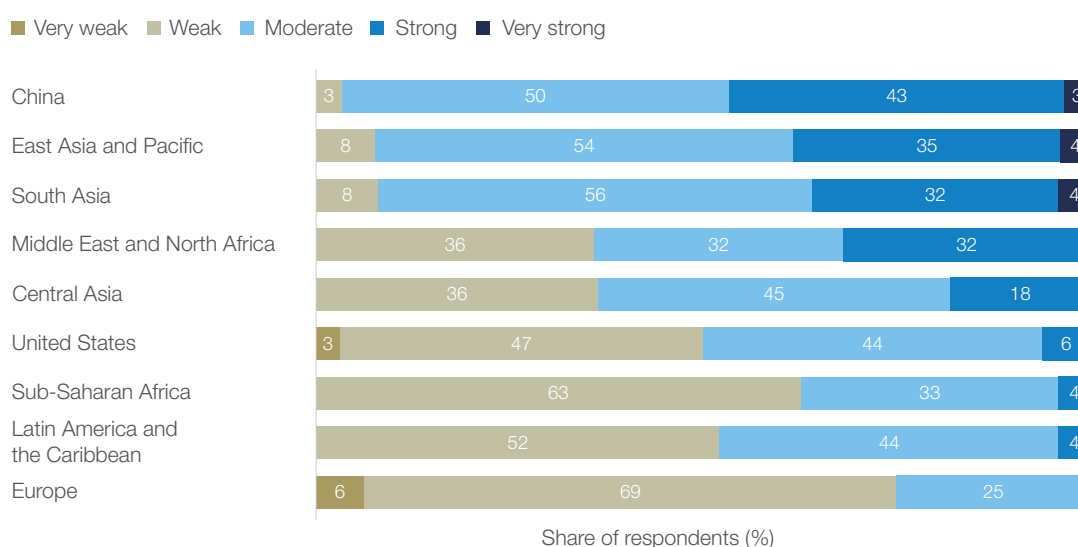
2 IMF, April 2023a.

A similar pattern of divergent growth dynamics can be seen in the chief economists' responses on the prospects for growth in various economies and

regions (see Figure 2). However, most of these regional outlooks have become more positive since the last Chief Economists Outlook was published in January.

## Figure 2. Economic growth

What is your expectation for economic growth in the following geographies in 2023?



Source: Chief Economists Survey, April 2023

Perhaps unsurprisingly, chief economists see the most buoyant economic activity among the economies of Asia. For China, in particular, there is near unanimity that growth will be moderate or better this year, a sharp improvement from January when this was the expectation of only half of respondents. China's borders have been reopening following the decision in late 2022 to unwind the country's stringent zero-COVID policies.

This change has transformed the growth outlook not just for China but for its regional neighbours too. Accordingly, 93% of chief economists expect at least moderate growth in East Asia and Pacific, with 39% expecting strong or very strong growth. The outlook for South Asia is broadly similar,

with 92% expecting at least moderate growth, and 36% expecting strong or very strong growth. While both of these regions are likely to benefit from both rebounding activity in China and expected changes in global supply chains (a topic discussed in section 3), it is important to note that tighter international financial conditions are already placing significant strain on a number of regional economies, such as Pakistan, Sri Lanka, Lao PDR and Mongolia.<sup>3</sup>

Expectations for growth in Central Asia have also strengthened in the wake of China's reopening.<sup>4</sup> Almost three-quarters of chief economists expect moderate or strong growth in the region this year, up from 31% in January.

3 World Bank, January 2023.



At the other end of the spectrum is Europe, where 75% of chief economists expect growth this year to be weak or very weak. Dismal as this outlook is, it marks a significant improvement since the last Outlook was published in January: then, 68% expected very weak growth in Europe in 2023; now, that figure is down to 6%. The improvement can in part be attributed to the region's winter resilience in the face of the energy crisis, but numerous factors continue to weigh on the growth outlook for Europe, including weak business and consumer sentiment,<sup>5</sup> and increasingly tight financial conditions.<sup>6</sup>

Latin America and the Caribbean and Sub-Saharan Africa also remain at the weaker end of the outlook, with more than half of respondents expecting weak growth. Both regions confront a difficult mix of headwinds: tepid global conditions, policy uncertainty, weak investment environments and some of the highest inflation rates globally.<sup>7</sup>

The chief economists are now evenly split on the outlook for the United States, with half of respondents expecting moderate or strong growth and the other half expecting weak or very weak growth. This polarized outlook is significantly more optimistic than in January, when just 9% expected moderate or strong growth, in line with buoyant labour market conditions and resilient domestic demand. Nevertheless, the country's prospects have been somewhat clouded recently by heightened uncertainty around financial stability and the

pace and extent of monetary tightening. Recent developments in the labour markets,<sup>8</sup> financial markets<sup>9</sup> and property markets may point to stronger headwinds in the second half of 2023.

The outlook for the Middle East and North Africa region is also evenly poised, with broadly similar proportions of survey respondents expecting weak growth (36%) and strong growth (32%) in 2023. The region's prospects have been affected by OPEC+ agreements to cut oil production, which led, for example, to the IMF revising its GDP forecasts for Saudi Arabia to reflect a projected fall from 8.7% growth in 2022 to 3.1% in 2023.<sup>10</sup>

## Prices continue to cause pain

There have been some reductions in headline rates of inflation in the early months of 2023. This reflects a range of factors, from sharp monetary tightening to a stabilization of commodity markets and an easing of supply-chain conditions. It also reflects base effects that will intensify in the second quarter of 2023 as sharp price increases recorded in 2022 drop out of the inflation rate's 12-month horizon. This mechanical reduction in the rate of inflation will do nothing to ease the pressure of high prices on households, and around 80% of the chief economists surveyed said they expect the cost of living to remain at crisis levels in many countries throughout 2023 (see Figure 3).

4 Ibid.

5 European Commission, March 2023.

6 IMF, April 2023a.

7 Adler et al., February 2023.

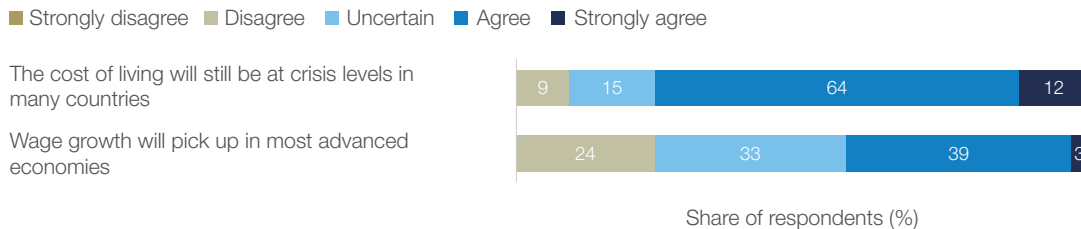
8 Bureau of Labor Statistics, April 2023a.

9 Rennison, March 2023.

10 IMF, April 2023a.

### Figure 3. Cost of living

Looking ahead to the remainder of 2023, do you agree/disagree with the following statements?



Source: Chief Economists Survey, April 2023

Cost-of-living pressures are particularly acute in some developing economies, where domestic price dynamics are exacerbated by currency depreciation. For example, between January 2020 and January 2023, food prices increased by as much as 46% in the Middle East and Central Asia.<sup>11</sup> With global wage growth struggling to keep up with prices, the risk is that vulnerable communities will be pushed further into poverty, especially under tighter financial conditions.<sup>12</sup>

It is also important to note that while headline inflation rates are falling, measures

of “core inflation”, which strip out volatile price categories, including food and energy, have been increasing. For example, the latest data for the Eurozone put core inflation at an all-time high of 5.7% in March 2023.<sup>13</sup> Similarly, in the US, while headline inflation eased slightly in March, core inflation picked up to 5.6% as higher housing-related prices more than offset declines on other price categories.<sup>14</sup> Moreover, as will be discussed in section 2, the recent banking crisis added an additional layer of complexity to current inflation dynamics by putting pressure on central banks to moderate the pace of monetary tightening.<sup>15</sup>

11 Rother et al., April 2023.

12 Alvarez et al., February 2023.

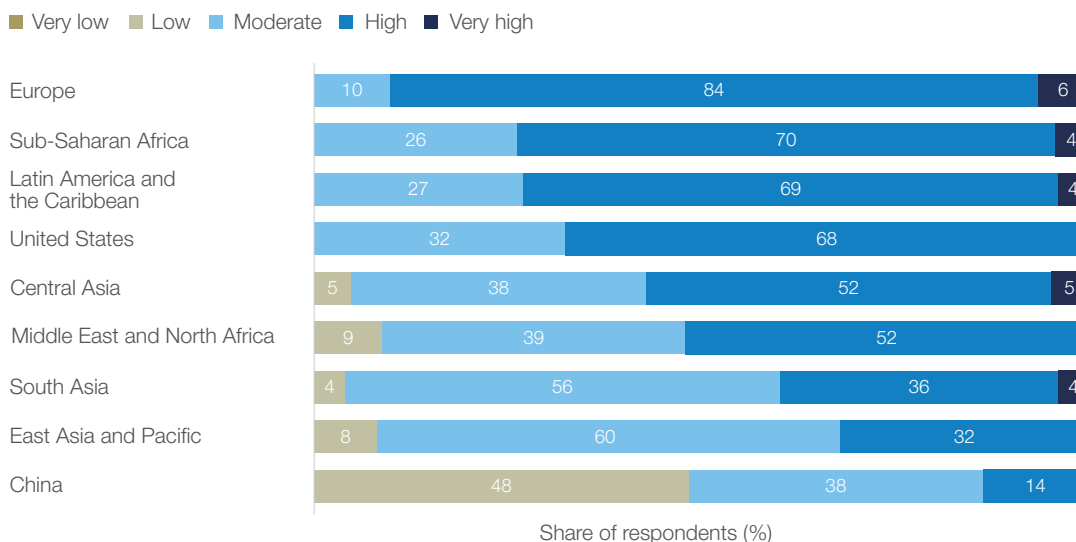
13 Eurostat, March 2023.

14 Bureau of Labor Statistics, April 2023b.

15 Timiraos, March 2023.

### Figure 4. Inflation

What is your expectation for inflation in the following geographies in 2023?



Source: Chief Economists Survey, April 2023

In light of factors like these, in April, the IMF increased its inflation forecast for 2023 from 6.6% to 7%.<sup>16</sup> The latest survey of chief economists also registers a gloomier inflation outlook compared to the January edition, with a marked uptick across all regions in the proportion of respondents expecting high, and in some cases very high, inflation this year (see Figure 4).

The position is particularly stark in Europe, where 90% of respondents expect high or very high inflation in 2023, up from 57% in the last survey. In the US, 68% of respondents expect high inflation, almost three times as many as in the last survey. Meanwhile, the intertwining of inflation and

currency dynamics mentioned above can be seen across a number of regions where chief economists' expectations of moderate inflation in the last survey have now given way to expectations of high and very high inflation, most notably Sub-Saharan Africa (74%) and Latin America and the Caribbean (73%). A slight majority (52%) also expects the Middle East and North Africa region to record high inflation this year. China remains an outlier, with only a small proportion of respondents (14%) expecting high inflation this year, albeit up from 5% in January. One factor to watch is the possibility that China's reopening will add to inflation pressures elsewhere, particularly if outbound tourism picks up.<sup>17</sup>

<sup>16</sup> IMF, April 2023a.

<sup>17</sup> Müller et al., February 2023.

## 2. Financial sector tremors

### Bank collapses dent confidence

In March, the global financial system was roiled by a series of dramatic disruptions on both sides of the Atlantic. In the US, bank runs brought down Silvergate Capital, Silicon Valley Bank (SVB) and Signature Bank. In Europe, there was a government-backed takeover of the troubled Swiss lender Credit Suisse by its arch-rival UBS.<sup>18</sup> These bank failures, and the market panic they induced,<sup>19</sup> briefly sparked fears of the kind of systemic financial vulnerabilities that caused the 2007-08 global financial crisis. Fears of systemic disruption have since abated, but concerns persist about pockets of financial vulnerability being revealed as rapid recent increases in interest rates begin to bite.

The survey of chief economists was in the field as the banking sector disruption was easing. Broadly speaking, respondents expressed confidence in the systemic integrity of the banking sector while also highlighting the likelihood of further episodes of disruption. On the one hand, almost 70% of respondents characterized recent distress in the banking sector as isolated episodes rather than as indications of systemic vulnerability (see Figure 5). On the other hand, almost the same proportion said they expect further bank failures or other financial disruptions this year (see Figure 6). The IMF has warned that even isolated bank failures increase the likelihood of the global economy facing a hard landing.<sup>20</sup> Conversely, critics caution that the relatively generous support that was provided to stem the recent bout of disruption risks propping up “zombie” banks and storing up bigger losses for the future.<sup>21</sup>

### Figure 5. Distress in the banking sector

How would you characterize recent distress in the banking sector?

■ Isolated episodes with limited additional impact ■ Indications of systemic vulnerability



Source: Chief Economists Survey, April 2023

<sup>18</sup> The Economist, March 2023a.

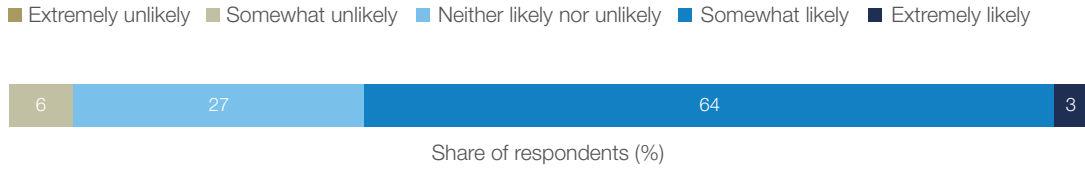
<sup>19</sup> Brenton, March 2023.

<sup>20</sup> IMF, April 2023a.

<sup>21</sup> The Economist, March 2023b.

**Figure 6. Financial disruptions outlook**

How likely are further bank failures or other serious financial disruptions in 2023?



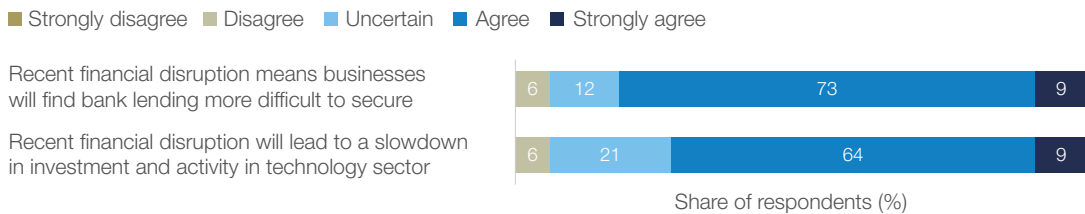
Source: Chief Economists Survey, April 2023

In addition to the risk of further turbulence in the banking sector, the latest survey of chief economists also highlighted the likelihood of spillover effects in the real economy as banks seek to bolster their balance sheets by lending more cautiously.<sup>22</sup> Businesses will find it more difficult to obtain bank loans

in the wake of this year’s financial disruption, according to 82% of the chief economists surveyed (see Figure 7). One estimate suggests that in the US and Eurozone, the drag exerted on GDP growth by changing credit conditions will amount to around half of one percentage point.<sup>23</sup>

**Figure 7. Impact of recent financial disruptions**

Looking ahead to the remainder of 2023, do you agree/disagree with the following statements?



Source: Chief Economists Survey, April 2023

Even if the worst of the financial crisis has passed, the fear and volatility it engendered have revived debates about how best to regulate the banking sector.<sup>24</sup> This is another area where the survey of chief economists points to marked levels of uncertainty, with broadly similar proportions of respondents expecting each of the three regulatory options presented: (1) no further changes after the initial response, (2) further national

measures, and (3) further national and global measures. When asked to identify specific regulatory measures they expected to see more of, respondents highlighted five in particular: tighter regulation and supervision of small and mid-sized banks, higher liquidity standards, improved oversight of non-bank financial sector institutions, and strengthened stress testing.

22 Lawder, April 2023.  
 23 IMF, April 2023b.  
 24 Adrian et al., March 2023.

### Figure 8. Regulatory response

What is your expectation for the regulatory response to recent financial disruption?

- The response will be limited to the steps taken in the immediate aftermath of bank collapses in the US and Switzerland
- The initial response will be followed by further changes to banking regulations at the national level
- The initial response will be followed by changes to banking regulations both nationally and globally



Source: Chief Economists Survey, April 2023

### Interest rates in the spotlight

The recent bout of financial disruption is closely intertwined with monetary policy decision-making, particularly in the US. One of the proximate causes of the flurry of bank collapses was the effect on bank balance sheets of rapid policy rate increases, which triggered sharp falls in the value of many assets, including the government bonds that made up a significant proportion of the holdings of SVB. The Federal Deposit Insurance Corporation (FDIC) estimated that as a result of these shifts, the US banking sector was sitting on \$620 million of unrealized losses, leaving smaller lenders particularly vulnerable to runs on deposits.<sup>25</sup>

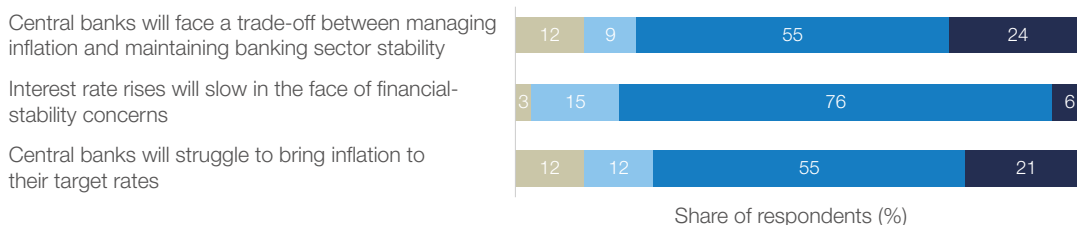
Almost 80% of chief economists assert that central banks now face a trade-off between, on the one hand, persisting with the pace of their tightening cycles until inflation is back down to more manageable levels, and on the other hand, triggering further distress in the financial sector (see Figure 9).

There appears to be strong consensus on how central banks will manage this trade-off, with 82% of chief economists expecting the pace of interest-rate rises to slow over the remainder of 2023 owing to financial stability concerns. This will hamper efforts to rein in inflation, and three-quarters of respondents expect central banks to struggle to bring inflation down to their target rates.

### Figure 9. Monetary policy

Looking ahead to the remainder of 2023, do you agree/disagree with the following statements?

- Strongly disagree
- Disagree
- Uncertain
- Agree
- Strongly agree



Source: Chief Economists Survey, April 2023

<sup>25</sup> FDIC, March 2023.

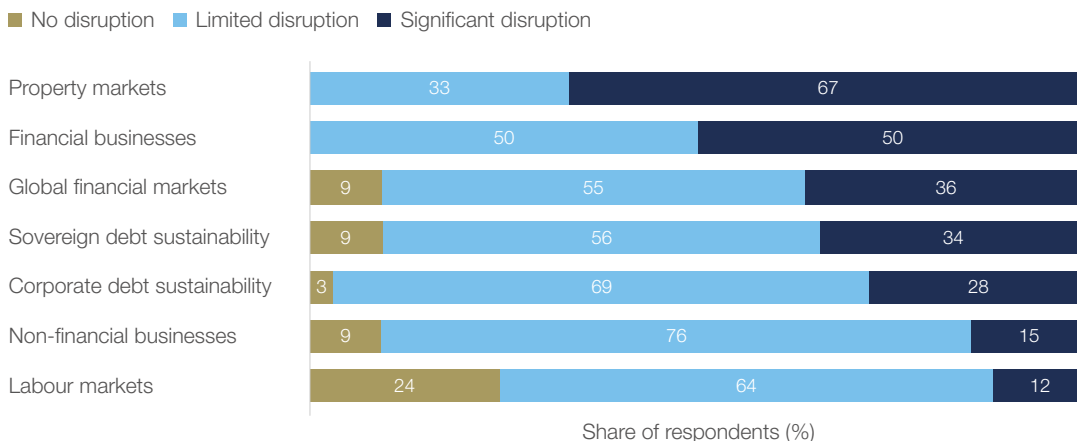
The evidence thus far from the two most systemically important central banks is mixed. In the US, the Federal Reserve raised rates by 25 basis points in March 2023; this was the first rise of less than 50 basis points since a year earlier.<sup>26</sup> For its part, however, the European Central Bank maintained the pace of its previous increases, hiking rates by another 50 basis points in March 2023.<sup>27</sup>

Even if there is dovish shift in the stance of the world’s central banks, the prospects of a full-scale shift to monetary loosening are remote.<sup>28</sup> The era of ultra-low rates has ended, and if higher rates have already contributed to a number of collapses in

the banking sector, the question arises as to where else there may be vulnerabilities in the face of elevated borrowing costs. According to the survey of chief economists, the biggest source of concern should be property markets, where 67% of respondents expect higher rates to cause significant disruption in 2023-24 (see Figure 10), followed by financial businesses, global financial markets and sovereign and corporate debt sustainability. Notably, there appears to be little concern about the impact on labour markets, and almost two-thirds of respondents expect labour markets to remain tight in most advanced economies this year.

**Figure 10. Impact of higher interest rates**

In light of the role played by rising interest rates in recent episodes of disruption, what is your expectation for the impact of higher rates in the following areas in 2023-2024?



Source: Chief Economists Survey, April 2023

There are already signs of strain in commercial property markets in particular, with global transaction volumes down by 17% over the past year and the value of

US-listed real-estate investment trusts (REITS) down by between 14% and 20% year on year in the first quarter of 2023.<sup>29</sup> In its latest *Global Financial Stability Report*,

26 Federal Reserve, March 2023.

27 European Central Bank, March 2023.

28 Strohecker, Flasseur, April 2023.

29 IMF, April 2023b.

the IMF cautioned that a broad-based correction across the sector is now a risk given the combination of higher interest rates and signs of structural changes in the levels of demand for commercial property. Moreover, in the US, vulnerabilities in the commercial property sector risk creating a doom loop with the banking sector: with around three-quarters of US commercial property lending coming from smaller banks (with total assets of below \$250 billion), if a slump in commercial property values were to cause a spike in bad loans, it could have a cascading impact in parts of the US banking system.

Similarly, in the global financial markets, there have been signs of strain and uncertainty. This was particularly true in the immediate wake of the collapse of SVB. Despite stock markets remaining relatively flat, the market for US two-year Treasuries plunged into uncharted territory, with yields collapsing by just more than half a percentage point on one day alone, a bigger one-day move than had been recorded even at the height of the global financial crisis. A flight to safety at a time of turbulence makes sense, but the scale of the volatility in bond prices has raised some concerns about market vulnerability to any further banking sector disruption.<sup>30</sup>

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30 Martin, March 2023.



# 3. The changing face of globalization

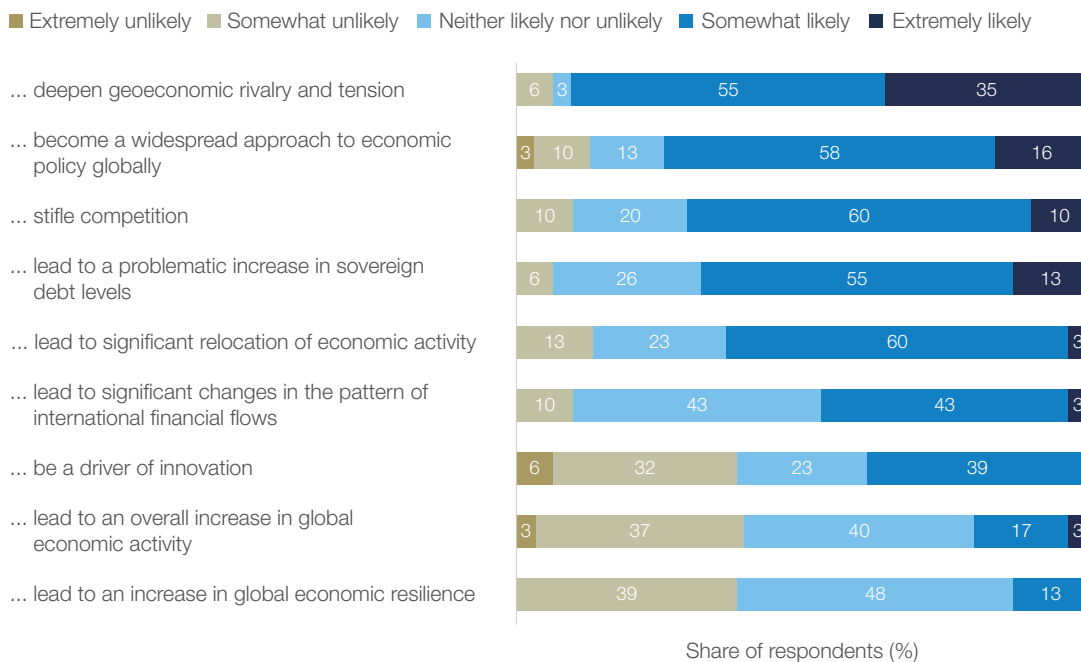
## The return of industrial policy

In addition to the short-term turbulence that has been triggered by rising interest rates, there are also deeper structural shifts under way in global patterns of economic activity. This subsection looks at the growing prevalence of industrial policies that seek to give the state a renewed prominence in national and global economic development. The survey of chief economists is

unambiguous in concluding that industrial policy will have a marked impact on the global economy in the years ahead. Almost three-quarters of chief economists expect it to become a widespread global approach to economic policy over the next three years (see Figure 11), building on high-profile recent initiatives such as the Inflation Reduction Act and CHIPS Act in the US, the EU’s Green Deal or France 2030.

**Figure 11. Industrial policy**

In light of some governments seeking a more active role in the economy, how likely is it that over the next three years this approach to industrial policy will...



Source: Chief Economists Survey, April 2023

Numerous factors have contributed to the resurgence of industrial policy. Deepening geopolitical tensions have been a key driver, with the world's largest powers seeking to maintain or develop their strategic autonomy and limit their dependence on rivals for crucial goods and services. Another factor has been the perceived need for strong public sector involvement to drive progress on major national and global challenges, such as infrastructure development and climate change mitigation. In addition, “free-market” policy frameworks have been discredited in many countries in recent years, leading governments to feel more emboldened in asserting the need for increased political influence over key economic decisions.

The number of industrial policies has almost doubled in the last decade, according to the UN Industrial Development Organization (UNIDO), with objectives ranging widely from boosting growth and innovation to creating jobs and driving the green transition.<sup>31</sup> While it may take some time before the effectiveness of this recent wave of policies can be gauged, the chief economists highlight a number of concerns (see Figure 11). Most strikingly, 91% expect the resurgence of industrial policy to lead to a deepening of geoeconomic tensions. On the economic front, 70% expect industrial policy to stifle competition, and only 20% expect it to lead to an overall increase in global economic activity.

This echoes familiar concerns. Even proponents of industrial policy warn against the risks of inefficient government spending in pursuit of poorly defined targets. Related to this, 68% of chief economists highlighted

the potential for industrial policy to lead to problematic increases in sovereign debt levels. It is notable that thus far, the revival of industrial policy is almost entirely an advanced-economy phenomenon. The UNIDO research suggests that high-income economies implement about five times as many industrial policies as low- and middle-income economies.<sup>32</sup>

Around two-thirds of chief economists expect industrial policy to result in a significant relocation of economic activity worldwide. With around 60% of industrial policies involving firm-level incentives and targets – for example, to attract key industry players from around the world – there is ample scope for a spiral of protectionist counter-measures to emerge.<sup>33</sup> Responses to the Inflation Reduction Act have shown that companies are quick to adapt in order to capitalize on generous new incentives.<sup>34</sup> The next section will discuss who the potential winners and losers from this shifting of activity will be, but in the aggregate, the view of the chief economists seems to be that the resulting pattern of activity will be fragmented and potentially fragile. Only 13% expect current approaches to industrial policy to improve economic resilience.

One area of uncertainty that emerges from the survey responses is the relationship between industrial policy and innovation, where the chief economists are evenly divided. Around 40% agree that industrial policy will be a driver of innovation over the next three years, but a similar proportion disagrees. One of the concerns in this regard is the potential for wasteful duplication if technologies and industries are being developed in parallel in silos across the world. For example, it

31 UNIDO, March 2023.

32 Ibid.

33 The Economist, January 2023.

34 Euractiv, March 2023.

has been estimated that if US firms were to replicate domestically cumulative global investments in three priority industries (green energy, technology hardware and batteries), it would cost up to \$4.6 trillion, or about 4.8% of world GDP.<sup>35</sup> Similarly, fragmenting and duplicating supply chains is neither efficient nor environmentally optimal.

### The reshaping of global supply chains

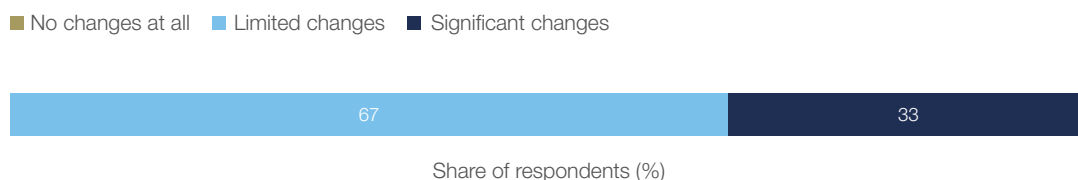
A resurgence of industrial policy is one of a number of factors that has been reshaping global supply chains in recent years. In the November 2021 Chief Economists Outlook, deglobalization was touted as the most significant trend reversal in the global economy at the time.<sup>36</sup> A few months later, Russia's invasion of Ukraine wreaked havoc with global markets for crucial commodities,

notably food and energy, prompting further expectations that businesses would have to reconfigure their supply chains in response.<sup>37</sup>

In the latest survey of chief economists, one-third of respondents said they expect significant changes in the structure of global supply chains over the next three years, with the remaining two-thirds expecting limited changes (see Figure 12). No respondents said they expected no changes. The fact that a substantial majority foresees only limited changes perhaps reflects the resilience of supply chains over recent years, with the Global Supply Chain Pressure Index returning to its pre-pandemic levels in February 2023.<sup>38</sup> However, the twin pressures of deepening geopolitical tensions and intensifying industrial policy mean that further adjustments are almost inevitable in the coming years.<sup>39</sup>

**Figure 12. Changes in the structure of global supply chains**

What is your expectation for the extent of changes in the structure of global supply chains over the next three years?



Source: Chief Economists Survey, April 2023

In terms of the regional character of any future changes to global supply chains, China is expected to be particularly affected. Almost three-quarters of the chief economists surveyed said that they expect supply-chain restructuring to have a negative impact on China's economic prospects

(see Figure 13). No other country or region comes close to this figure, which is likely a reflection of concerted efforts to use industrial policy to encourage the strategic relocation of manufacturing activity as well as the lengthy COVID-19 related closures in China.

35 The Economist, January 2023.

36 World Economic Forum, November 2021.

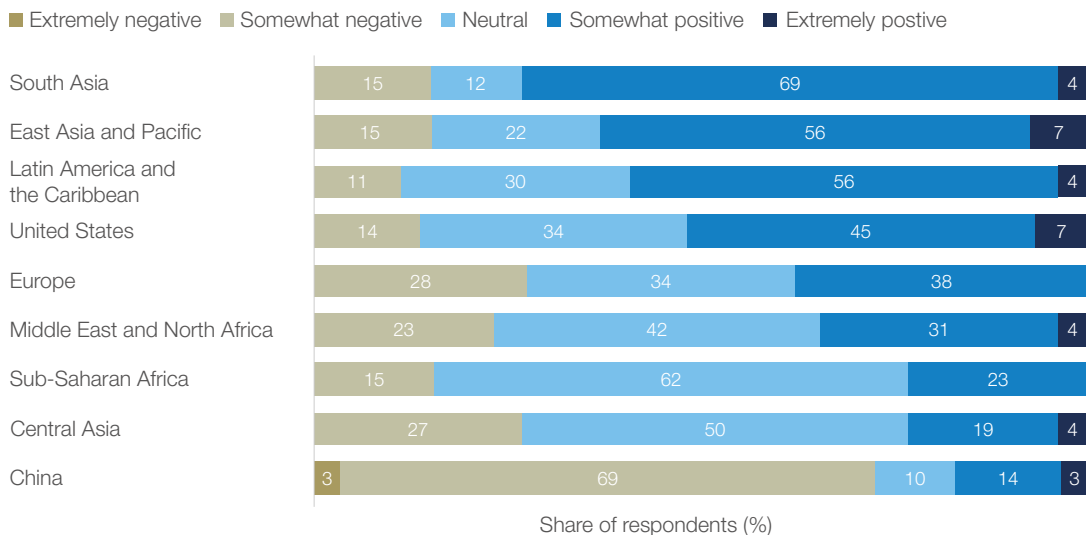
37 World Economic Forum, September 2022

38 Global Supply Chain Pressure Index, March 2023.

39 McKinsey, August 2022.

### Figure 13. New geography of supply chains

What is your expectation for the effect of global supply chain restructuring on the economic prospects in the following geographies over the next three years?



Source: Chief Economists Survey, April 2023

According to the survey, the regions most likely to benefit from supply-chain changes are South Asia, East Asia and Pacific, Latin America and the Caribbean, and the US. This is broadly in line with many supply-chain developments over recent years.<sup>40</sup> When asked to name specific economies that are likely to benefit, among those repeatedly cited were: Vietnam, India, Thailand, Indonesia, Mexico, Turkey and Poland. On a sectoral basis, the chief economists listed a range of industries where they expect supply-chain changes to be most pronounced, including semiconductors, green energy, automotive, pharmaceuticals, food, energy and the broad technology category. Perhaps unsurprisingly, there is significant overlap between this list and the list of sectors where the chief economists expect industrial policy

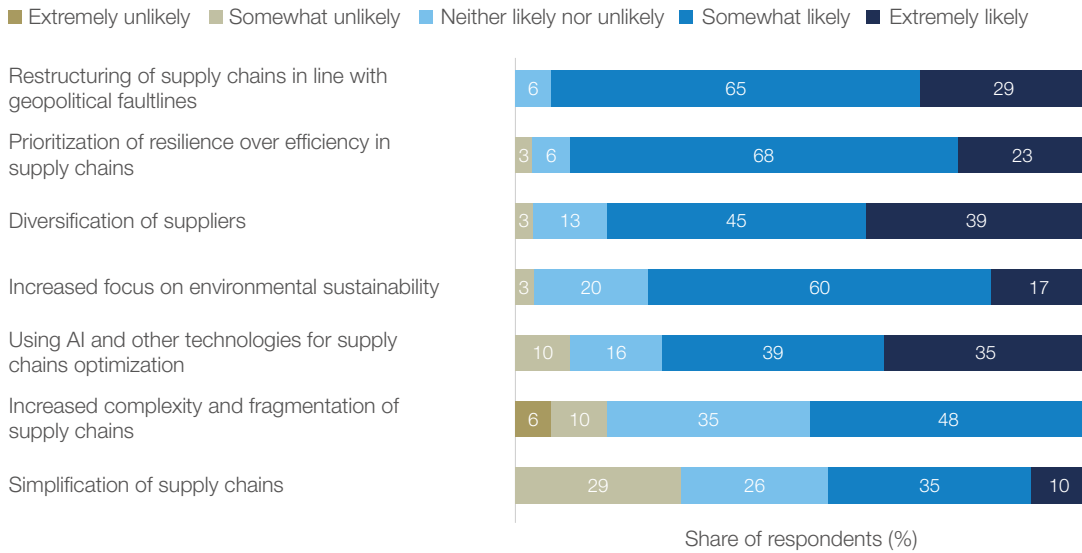
to have the greatest impact and also reflects takeaways from the pandemic as well as the food and energy crises triggered by the war in Ukraine.

The chief economists also pointed to a series of business strategies that will influence the changing structure of global supply chains. Again, geopolitical factors feature prominently, with 94% of respondents expecting businesses to reconfigure their supply chains in line with geopolitical faultlines (see Figure 14). Only slightly fewer (91%) expect businesses' prioritization of resilience over efficiency to be another influence on the shape of global supply chains. Related to this, 84% expect businesses' diversification of their suppliers to be another driver of supply-chain change.

<sup>40</sup> See, for example, Bove, December 2022; Chew, March 2023; Lee, April 2023; Kumar, April 2023.

**Figure 14. Supply chains strategies**

Over the next three years, which corporate strategies are most likely to shape global supply chains?



Source: Chief Economists Survey, April 2023

Slightly more than three-quarters of respondents highlighted the likely impact of an increased focus on environmental sustainability, while 74% said they expected to see AI and other technologies used for supply-chain optimization. One point of apparent disagreement among the chief economists was on whether businesses will make their supply chains more simple or complex, with around half of respondents expecting each of these strategies to contribute to the evolving shape of global supply chains.

As in other areas of the survey, the lack of consensus on this important aspect of ongoing supply-chain changes highlights just how fraught with uncertainty the global economy currently is. Moreover, this uncertainty shows no signs of diminishing. For example, the rapid recent advances in the field of generative AI represent another potentially seismic change to which businesses and governments will have to adapt. And this process of adaptation is expected to start soon: 42% of respondents expect these technologies to be commercially disruptive by the end of the year.

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