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The world in 2020

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Baptist, Simon. The world in 2020. (2020).

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The World in 2020

Dr Simon Baptist
Chief Economist
The Economist Intelligence Unit

15 January 2020

The
Economist

INTELLIGENCE
UNIT

Tide of change: “slowbalisation”

The trade war is causing growth to recede from its 2018 peak



US-China trade war will endure

Tech divide looming: US-China trade war is more about technology

Phase one deal to be signed in January 2020 that trims tariffs and obliges China to buy more from American farmers

US domestic politics drives tariff moves in the year ahead



Sluggish growth

Rising protectionism, tariffs dragging the global economy

Dovish Fed other central banks have followed

Monetary policy less effective, but fiscal policy in most countries isn't helping

China challenges: debt overhang, ageing, trade conflict, productivity



Alliances in flux

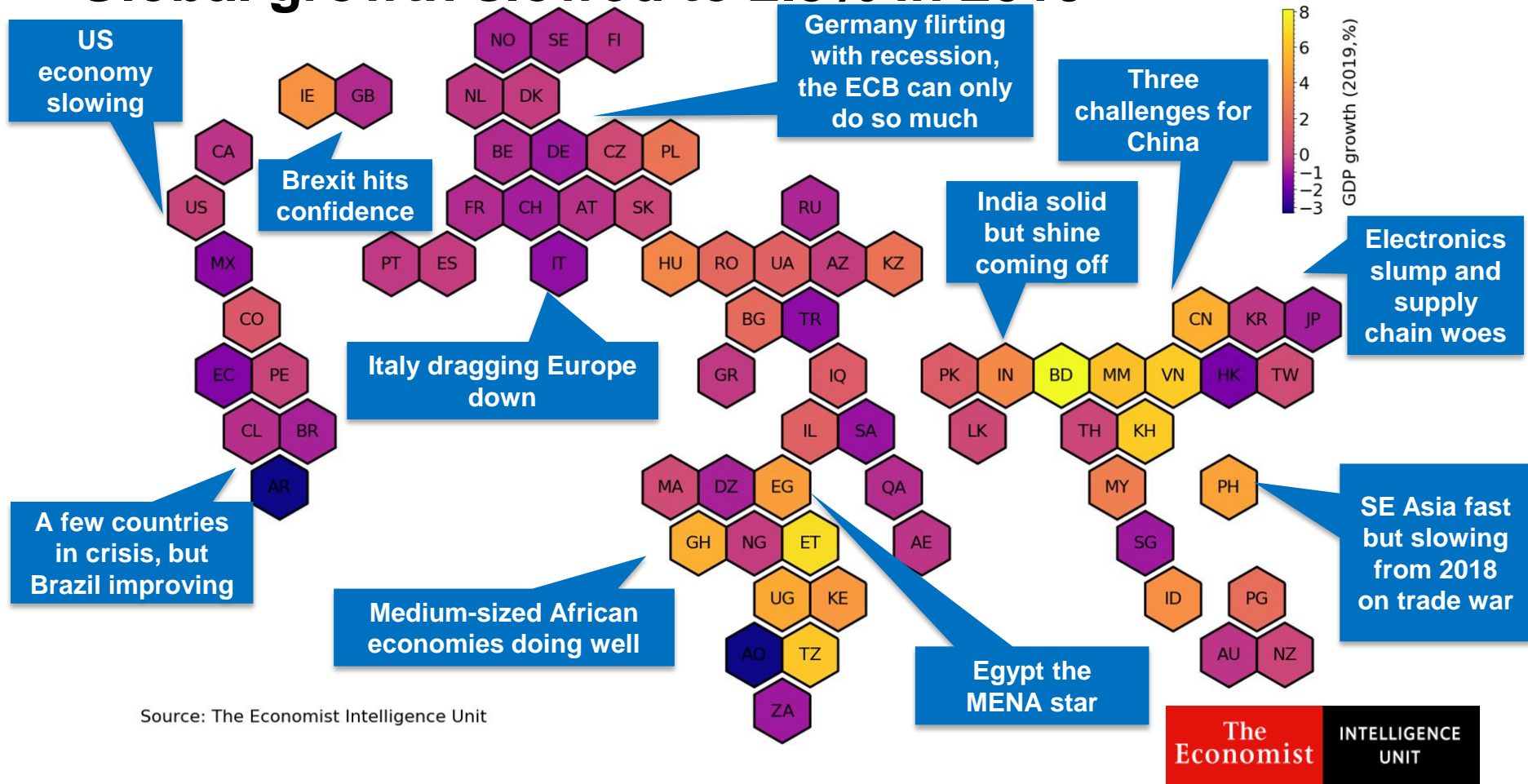
Supply chains to diversify and be disrupted eg Korea-Japan

US transactional on trade, tensions with allies, more direct challenge from China

BRI maturing but also getting pushback

End of individual privacy, and of firms' geopolitical insulation: NBA, FedEx, Huawei, Cathay Pacific

Global growth slowed to 2.3% in 2019



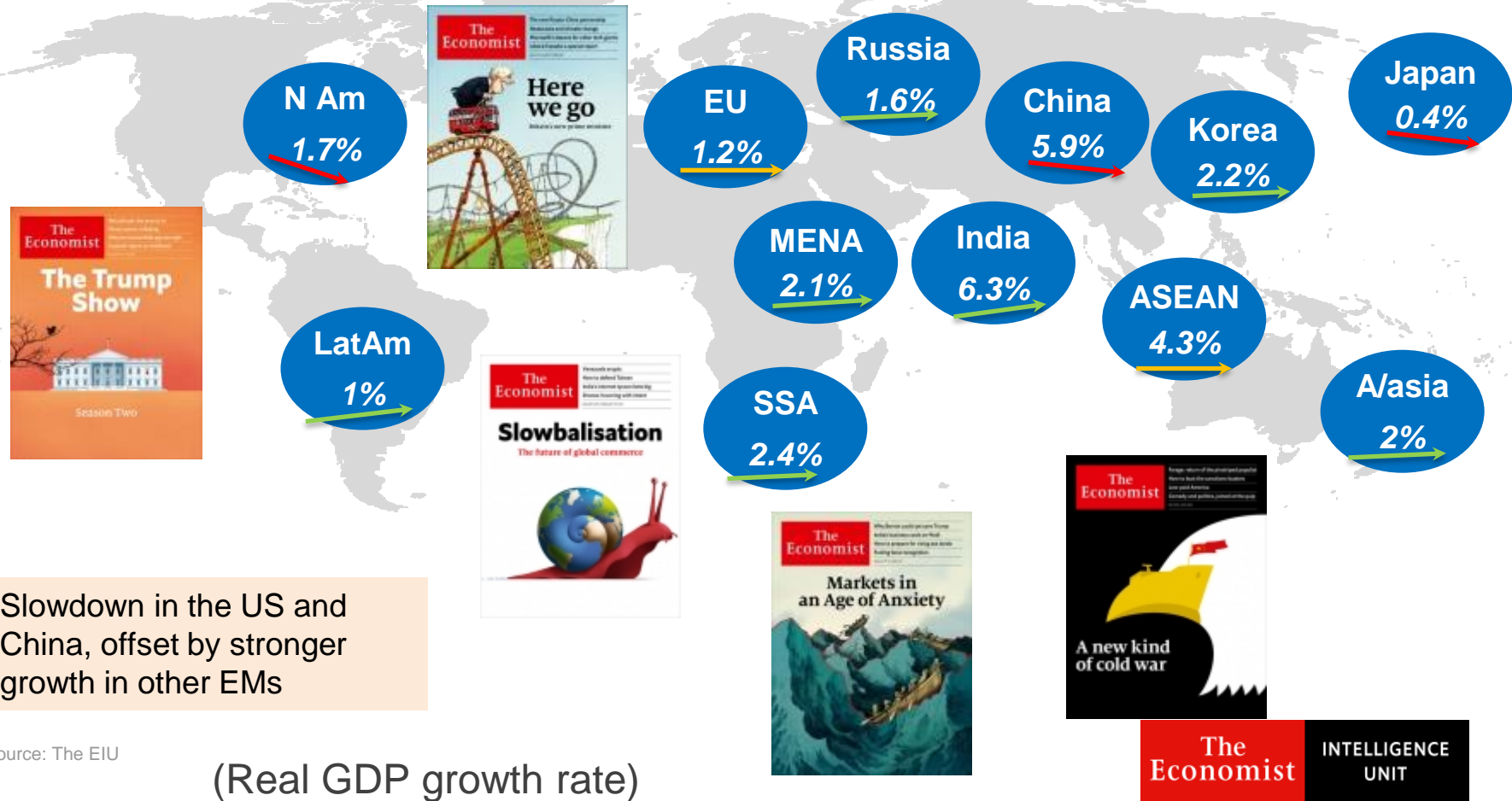
Source: The Economist Intelligence Unit

Audience poll

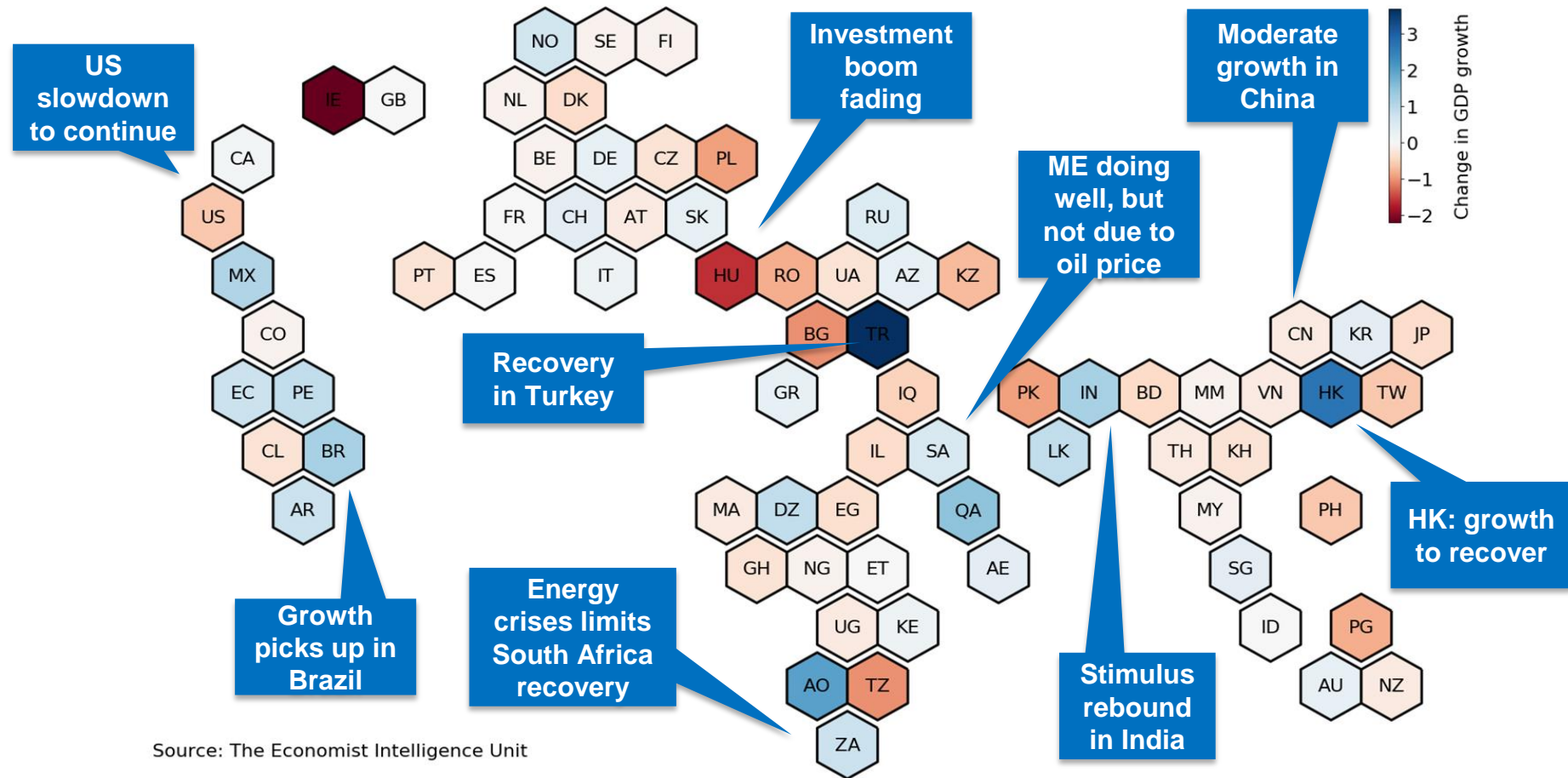
Which will be the fastest growing Asian country in 2020?

- A. Bangladesh
- B. Vietnam
- C. Indonesia
- D. Philippines
- E. Thailand

World economy to pick-up slightly to 2.4% in 2020



Growth to improve marginally in 2020 to 2.4%



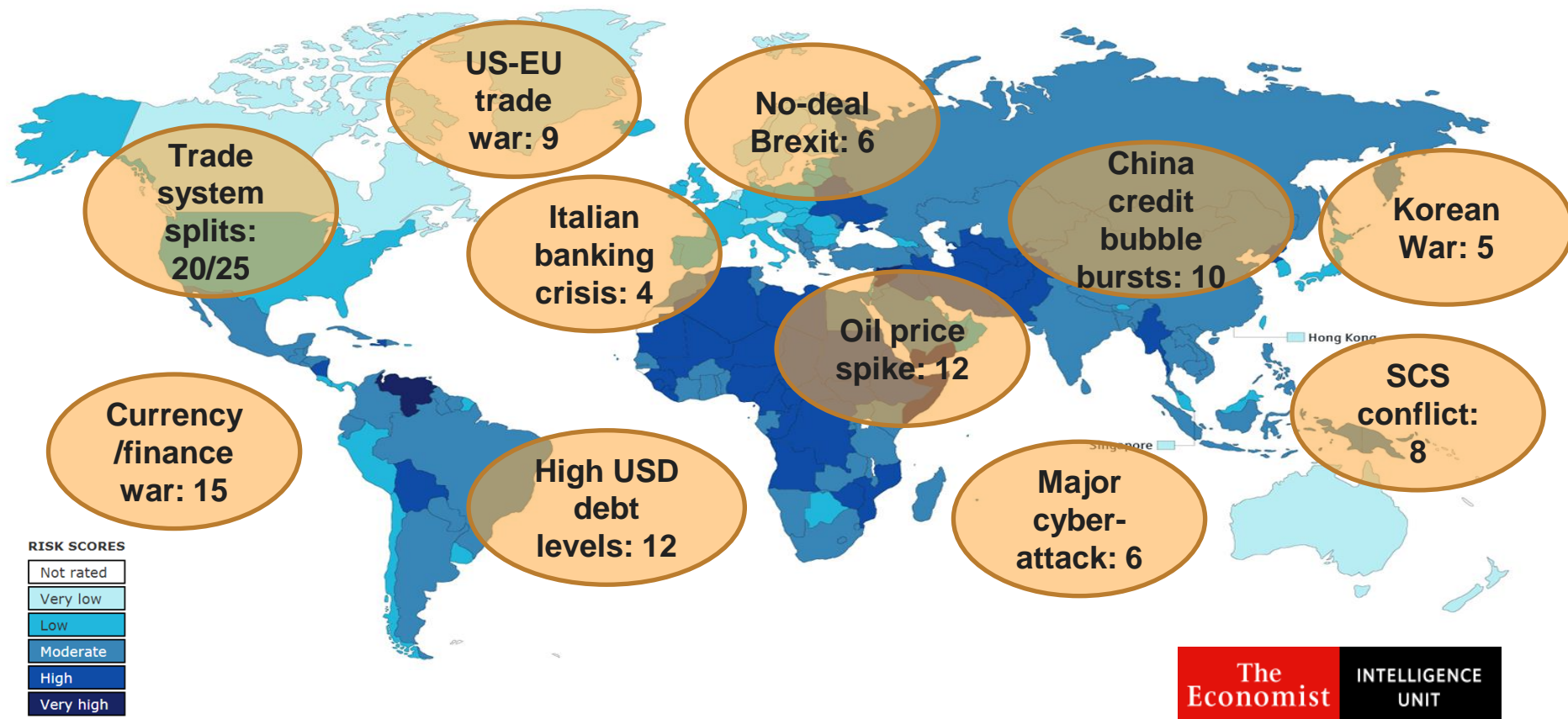
Audience poll

In your opinion, what is the biggest threat to the global economy?

- A. Excessive debt
- B. China/US trade war
- C. Low interest rates
- D. Populism

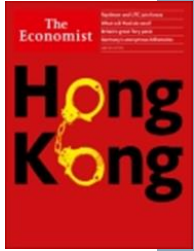
A split in the global trading system is our top risk

Currency wars, USD debt and a China slowdown are also on our mind



Growing social unrest; leaders need to be careful

Policy errors are leading to social unrest around the world; specific drivers are different, but it is critical that leaders stay in touch with ordinary voters



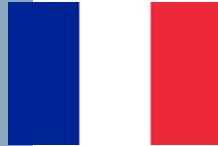
HK democracy and human rights concerns

Business impact

Erosion of 'two systems'

Proposed pension reforms

sparked protest; public sector workers on strike since Dec '19; transport and education affected



Unrest!

State of emergency declared in Chile

3% increase in metro fares sparked underlying discontent

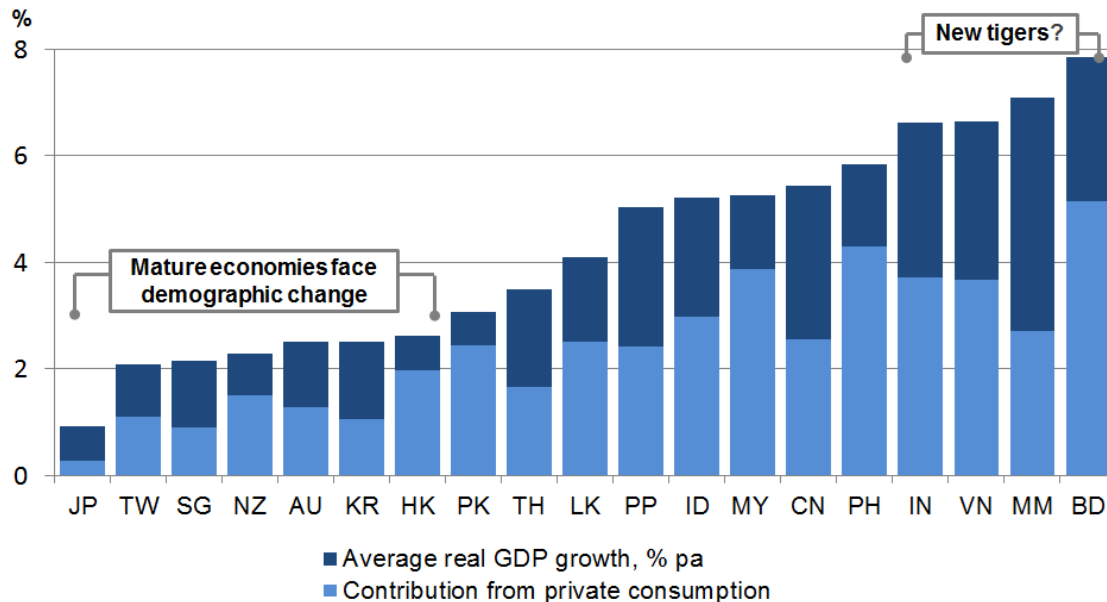
Prolonged government dysfunction but a proposed WhatsApp tax caused protests in Oct '19; **Economic reforms expected**



APAC economies have different growth drivers

Rapid urbanisation, high rates of saving and investment to support overall growth

Aging tigers vs. new tigers?



Growth to continue; Asia will remain the world's fastest growing region in 2020-24

Consumption led growth in South Asia but its growth to slow as consumer base increases

New tigers: Bangladesh to be Asia's fastest-growing economy in 2020-24, Vietnam, Cambodia and Myanmar will continue to record strong growth rates owing to low wage costs

South and South-East Asia are changing fast



Myanmar

Slow reforms, ethnic tensions



Cambodia

China investing a lot

Laos

investment in transport and hydropower



Philippines

political uncertainty



B'desh

textile boom



Thailand:

Household debt to drag on growth



Vietnam

trade war winner



Indonesia

booming consumer markets



Sri Lanka

tourism downturn



SG

4th gen leaders



Malaysia

supply chain opportunity

US GDP growth slowing: 2.9% in '18 to 1.7% in '20

Trump is impeached, but likely not to be convicted

Trump will find it hard to win the 2020 elections, impeachment to weigh on re-election prospects



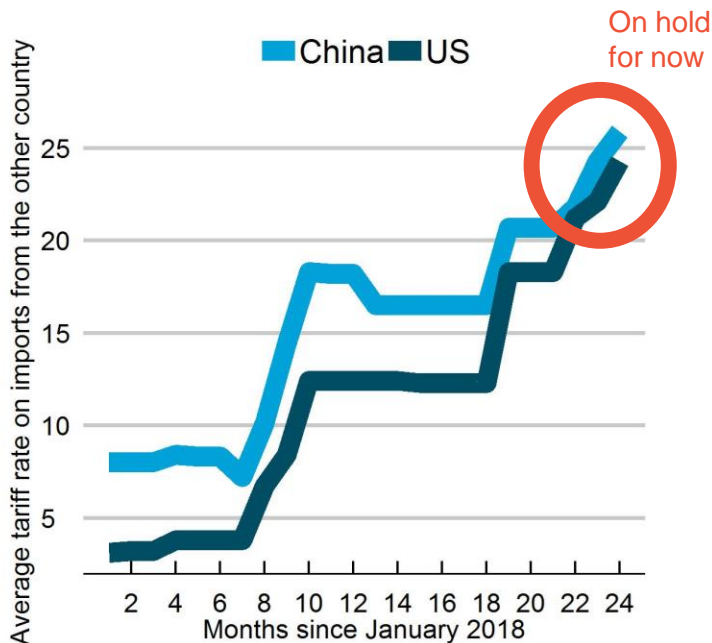
Economic growth is slowing

- Trade policy uncertainty and slowing global growth
- Investment boom fading after tax cuts, and government spending growth will have to slow
- Protectionism weighing on sentiment
- Import and wage costs have risen, trade uncertainty hitting exports and investment
- Fed's dovish stance, rate cut in March 2020 and on-hold in 2020
- Fiscal deficit to widen to 5% of GDP

US-China average tariffs heading towards 25%

The underlying battle over technology will increasingly move to the forefront

Slight easing in tensions, but a substantive agreement still looks out of reach



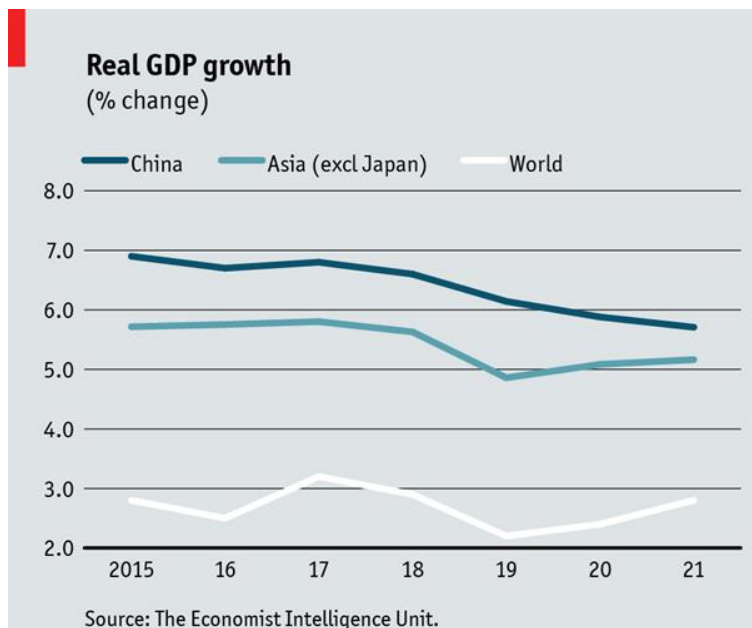
China moves: unreliable entity list, currency depreciation, offload Treasuries, make life tougher for US firms

US moves: International Emergency Economic Powers Act, financial sanctions (i) on investment (ii) on Chinese banks, Huawei ban

The USMCA: still not ratified, autos from EU and Japan at risk: auto tariffs would signal a global trade war, but likely just a negotiation tactic for free-trade agreements

China: moderate slowdown but rise in inflation

Stimulus policies to cushion slowdown in 2020



Economic slowdown to moderate; growth expected to be 5.9% in 2020, but inflation expected to rise from 2.9% in 2019 to 4.9% in 2020

Inflation challenges as consumer inflation expected to rise from 2.9% (2019) to 4.9% (2020); this limits space for monetary easing and cuts into household budgets

US-China strains to continue in 2020; while a shallow phase one deal will be signed in mid-January, deeper structural issues including in technology and finance will continue to cause economic friction to intensify in 2020

HK calmer, Taiwan heats up: while HK will be calmer in 2020, Tsai Ing-wen's re-election in Taiwan will be a cause for concern

India: growth to average <7% over next 5 years

Slowing reforms mean productivity growth will be well below potential

Slow structural reform, market-distorting support to small businesses and creeping authoritarianism will weigh on India's growth over the next 5 years

Risk Scenario	Risk	Impact
<i>Investors lose faith in central bank independence</i>	High	Moderate
<i>Conflict with Pakistan</i>	Moderate	High
<i>Oil prices surge</i>	Low	High
<i>GDP growth slows below 5%</i>	Moderate	Very High

Risk Scores

Low

Moderate

High

Very High

Slowing economy

- 2019 to witness lower growth at 4.9%; rising unemployment and slow wage growth
- Growth to be 6-7% over 2020-24

Populism to economic revival

- Corporate tax cut, focus on infrastructure in 2019 budget
- Infra financing PPPs may be a challenge, and bank lending still subject to govt direction

Challenges remain

- Slow improvements to biz environment, sectoral support to labour-intensive sectors to distort markets
- Significant skirmishes with Pakistan, but increasing strategic adjustment to rising China

Asian winners of the US-China trade war

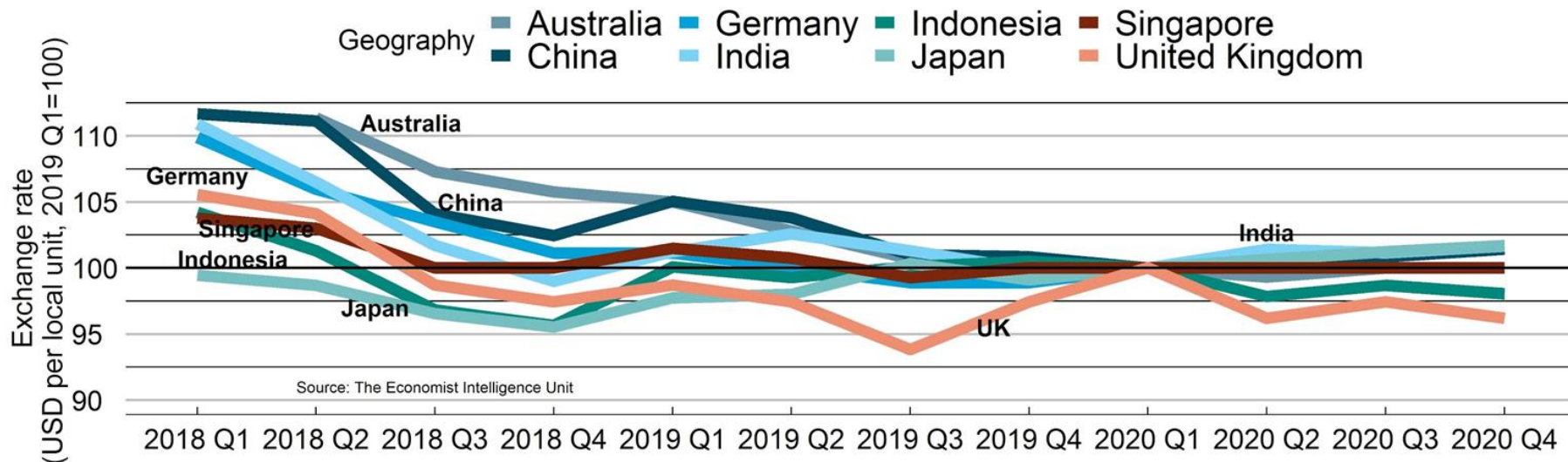
ASEAN to benefit from relocation of supply facilities from China

	Strong Benefits	Mild Benefits	Disruption
<i>Information and communication technology</i>	Malaysia 	India 	Philippines 
	Vietnam 	Indonesia 	Japan 
		Thailand 	Singapore 
			South Korea 
			Taiwan 
<i>Automotive</i>	Thailand 	India 	Japan 
	Malaysia 	Indonesia 	South Korea 
		Philippines 	Taiwan 
		Vietnam 	Singapore 

Currency markets to remain fairly stable

Most volatility is expected in the UK£ as Brexit negotiations progress

EM currencies will be affected by US-China tensions



Oil looks rangebound between US\$60-70/bbl

Little impact from drone attacks on Saudi infrastructure

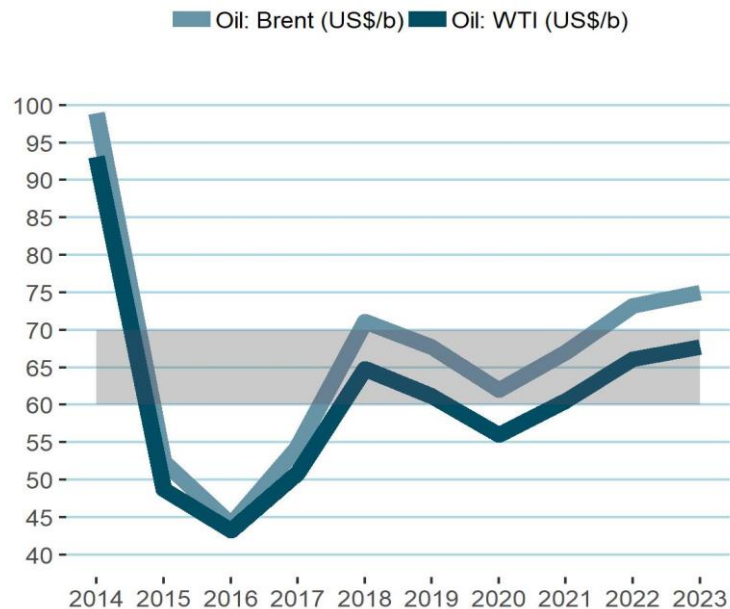


US-China talks will not make enough progress to lift oil prices in 2020

Demand factors dominate A softening global economic outlook on global growth weighed on oil prices in 2019

Trade war concerns to continue to weigh on oil market outlook in 2020

Deeper production cuts from OPEC+ and heightened geopolitical tensions in the Middle East will keep a floor under oil prices



Source: The Economist Intelligence Unit

Urban disasters, another key risk in Asia

Increase in climate change driven natural disasters



Risks associated with natural disasters can undermine long-term economic growth

Increased occurrence of natural disasters related to climate change

such as melting glaciers, rising sea levels, flooding; 2018 recorded 315 natural disaster events, of which 45% were in Asia¹

Sinking capitals; Bangkok and Jakarta

governments consider shifting capital cities as groundwater extraction and compaction lead to land subsidence

Economic losses from urban disasters

The EIU forecasts climate-related GDP losses of up to 1% for South Asia during 2021-30²

Asia and its floods
Save our cities

The threat grows from rising water and sinking buildings

A photograph showing several people wading through deep, muddy floodwaters. They are using long wooden poles to help them move through the water. The water is very turbid and reaches up to their chests.

Print edition | Asia >
Mar 17th 2012 | BANGKOK AND JAKARTA

The Economist explains
Why cities sink

The good news is some causes of land subsidence can be stopped

A photograph of a busy street scene. A large crowd of people is gathered on the sidewalk, looking towards the street. In the background, there is a large, ornate archway. The street is paved and appears to be in an urban area.

Urban Disaster Risk Index

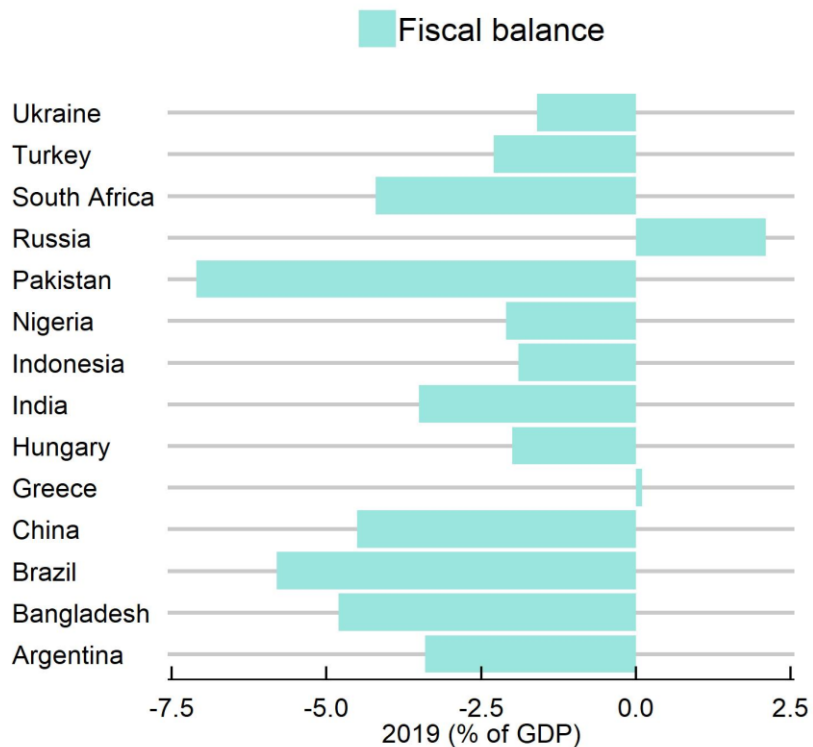
To be Launched

A photograph showing a small boat on a surface that is cracked and dry, resembling parched earth. The cracks are deep and form a grid-like pattern. The overall color is a dark, dusty blue.

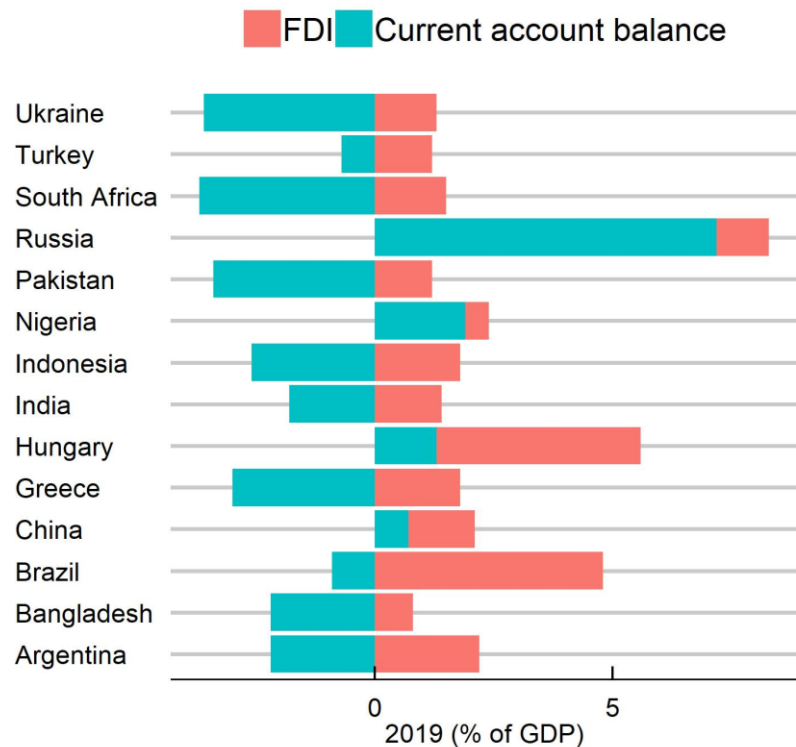
The Economist

Fed's dovish turn has reduced pressure on EMs

Crisis risk = big fiscal deficit + FDI not covering current account deficit



Source: The Economist Intelligence Unit



Source: The Economist Intelligence Unit

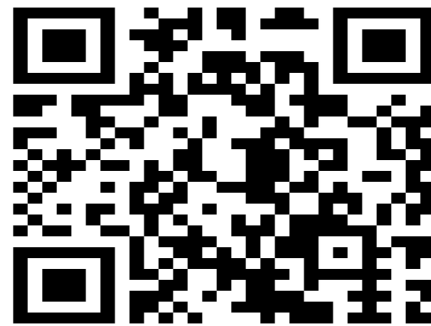
Any questions?

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