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The Economist's vision for 2020

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The Economist's vision for 2020

31 Jan 2020

The global economy will have stable but sluggish growth due to the macro environment

The year began with the phase one signing of a trade deal between the U.S. and China. However, détente between the superpowers might only be temporary. With the U.S. rolling back few of its tariffs, the deal was made to reduce economic uncertainties rather than herald a return to business as usual. The rest of the world will hope for a lasting truce that would enable stronger global economic growth in 2020.

SMU Libraries invited The Economist Intelligence Unit (EIU) to Singapore Management University on January 15, 2020 to share their thoughts on 'The World in 2020'. **Simon Baptist**, chief economist of the EIU, spoke about 'slowbalisation', whereby the rate of globalisation would slow but not regress.

"The world is extremely integrated," he notes. "[Globalisation] has given us big increases in living standards. It's been beneficial for business, and the world is too interconnected to put that into reverse. [However], the process of global integration is going to become a lot slower. There are going to be more barriers to moving things between countries, be that people, capital, goods, services, or investments."

Technological disputes still linger. "There are fundamental disagreements about the role of technology and the role that each country's companies have in the other." Both the U.S. and China were motivated to complete the superficial phase one deal for domestic reasons.

President Trump will turn his attention to a presidential election that the EIU thinks could surprise. Baptist elaborates: "The big political event this year is the U.S. election, and our expectation is that Donald Trump won't win. It's not a confident call because it's still early in the campaign. He's got a 40 percent chance of winning."

Being the incumbent brings advantages. "Trump has a really high profile, and can affect the news cycle by creating a crisis or tweeting something crazy. He also has the Republican Party behind him, which he didn't previously as an outsider candidate." Trump won in 2016 with only 46 percent of the popular vote but the distribution of those votes secured key states under the Electoral College. Baptist assesses that Trump is unlikely to serve a second term because "he's not very popular, and in a democracy, that affects his chances of getting re-elected." His margin for error has fallen along with his popularity.

China is on pace to eradicate poverty in 2020 but its growth will fall from 6.1 percent to 5.9 percent. Domestic issues will top President Xi's agenda. The Hong Kong protests have not abated while the international outcry over the Xinjiang detention camps could grow louder. Taiwan had also just elected a pro-independence president.

Economically, China's debt and inflation levels require careful monitoring. Baptist shares: "Half of their pig herd has died with a variant of swine flu, so food prices are rising rapidly. High inflation is going to make it hard to support the economy with more stimulus."

NEW WORLD ORDER

Global economic growth is projected to grow slightly from 2.3 percent to 2.4 percent in 2020. The sluggish growth is attributable to rising protectionist trends and ineffective economic policies. Europe has been mired in uncertainty over Brexit. Many developed countries like Japan face unfavourable demographic change. Increasing trade to boost growth will be challenging while tensions between the U.S. and China remain.

Countries will try to avoid falling exclusively under the American or Chinese sphere of influence as multilateralism becomes less prevalent. Baptist spoke about the damaging effects of a resumption of the trade war. “It could cause a split in the global trading system, where the U.S. and China each make it so difficult for firms to do business in the other country that companies have to end up choosing one or the other.”

U.S. foreign policy has also pressured the traditional alliance system. Baptist discusses how its unilateral decisions have caused unease.

“The U.S. had blocked the reappointment of judges to the World Trade Organization's arbitration panels, [rendering the multilateral body unable to mediate trade disputes],” he points out. “Almost no U.S. ally came out in support of the recent assassination of an Iranian general. The U.S. is now viewed as a less reliable ally.”

At the same time, China has been throwing its economic weight around, “trying to build an alliance system [by] bullying rather than by getting people involved because of shared interests. So there's a lot more unpredictability in international affairs.”

Interestingly, oil has played a less important role in U.S. foreign policy. Baptist predicts that prices will remain stable throughout the year. He explains: “We had Iran bombing Saudi Arabia's biggest oil production sites and taking five percent of the world's supply offline. Then the U.S. assassinated an Iranian general, which led to Iran retaliating with a series of rocket attacks. We thought oil [prices were going to spike], but it hasn't really changed much.”

U.S. shale oil has changed the market dynamics and reduced the likelihood of oil shocks. “Shale producers in the U.S. have the opposite production structure to traditional producers with low fixed costs and high marginal costs,” Baptist explained. The oil cartel will find it difficult to fix prices much higher than shale oil's breakeven price.

WHO WILL WIN THE TRADE WAR?

Last year, the growth hotspot occurred in the Southern parts of Asia that conduct significant business with both the U.S. and China. Bangladesh will likely repeat its performance as the fastest growing economy in 2020. Baptist shares: “Bangladesh had a significant garment sector, which benefitted from the shifting of supply chains in garments and textiles from southern China, because of its low wages and decent export infrastructure.”

South East Asia, providing it avoids urban disasters and the effects of climate change, benefits by positioning itself as neutral ground in the trade war. Baptist notes:

“As some of these supply chains are starting to relocate to South East Asia, production will move to places like Vietnam, Thailand, Malaysia, and Bangladesh. Then Singapore will start to get some benefit through increasing transshipments.

Thailand and Malaysia are best placed to expand in the automotive sector, while Malaysia and Vietnam will benefit from increased commercial activity in the IT space.”

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