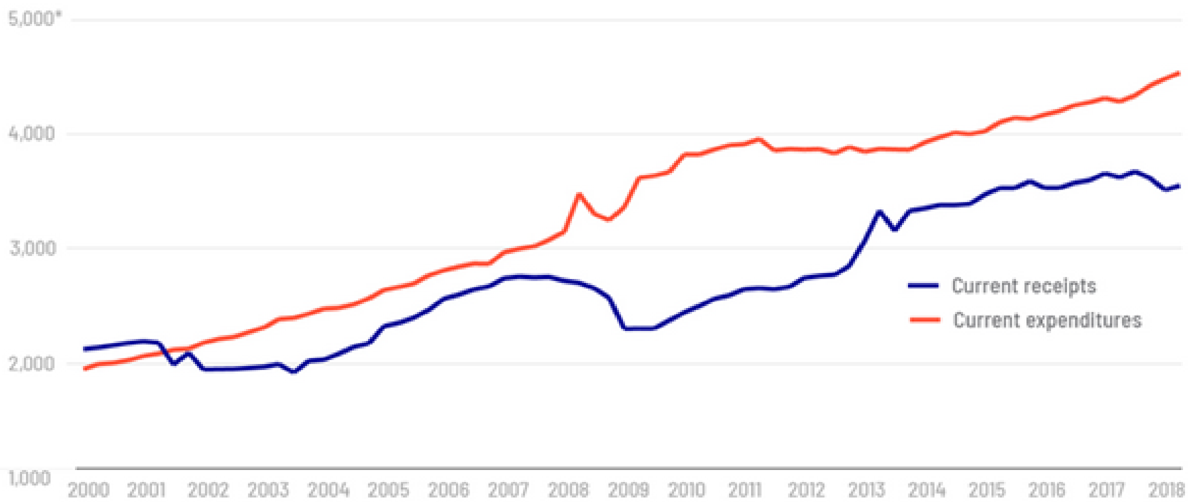
GLOBAL ECONOMY - HORIZONS OF 2020

Iulian GOLE
Ph.D. student, Bucharest Academy of Economics Studies, Romania, iuliangole@yahoo.com

ABSTRACT
There are a few numbers of specialists who started to predict a new economic crisis till the end of 2020. As always, there are many others who are not agreeing and who provide a set of arguments to prove why we are not going in difficult times in the near future. In this article we want to answer to the question: are we in real danger to face an economic crisis in next years? In order to do so we will take into consideration the main reasons that are considered by the crises predictors but we will introduce our own arguments as well. Finally, by the means of a risk analysis we will see if and where the main danger for the global economy is coming.
KEYWORDS
Global economy, economic crisis, risk analysis

INTRODUCTION

After more than a decade since the collapse of Lehman Brothers, we are still talking about causes and consequences of the last financial and economic crisis and if we learned the necessary lessons out of this situation. The overall perception is that new crises is totally improbable but let's check few relevant questions.
We are observing a global expansion that will likely continue in the next year despite the fact that US is confronting with a larger deficit (779 billion USD in 2018, up to 17% comparing with 2017[1]).



(Source: Own processing after Bureau of Economic Analysis, 2019)
Figure 1. US budgetary deficit

China is continuing its relaxing fiscal and credit policies, while Europe is still on the way of recovery. Nevertheless till 2020, there are certain expectations that the conditions will be perfect for a new financial crisis, followed as usual by a global recession.

1. STATE OF KNOWLEDGE

Starting from an article written by Nouriel Rubini and Brunello Rosa in September 2018[2], we started our own analysis regarding the possibility of a future crisis. We could find at least 11 reasons in order to support this idea and we are presenting them, shortly, in the next lines.

1. It is generally accepted that a sustainable annual US growth rate is around 2 % but due to the fiscal stimulus policies driven by Trump administration today we have a growth of around 3%. But by the end of 2020, the stimulus will probably end and consequently a more modest fiscal policy will push the growth to slightly below 2%.

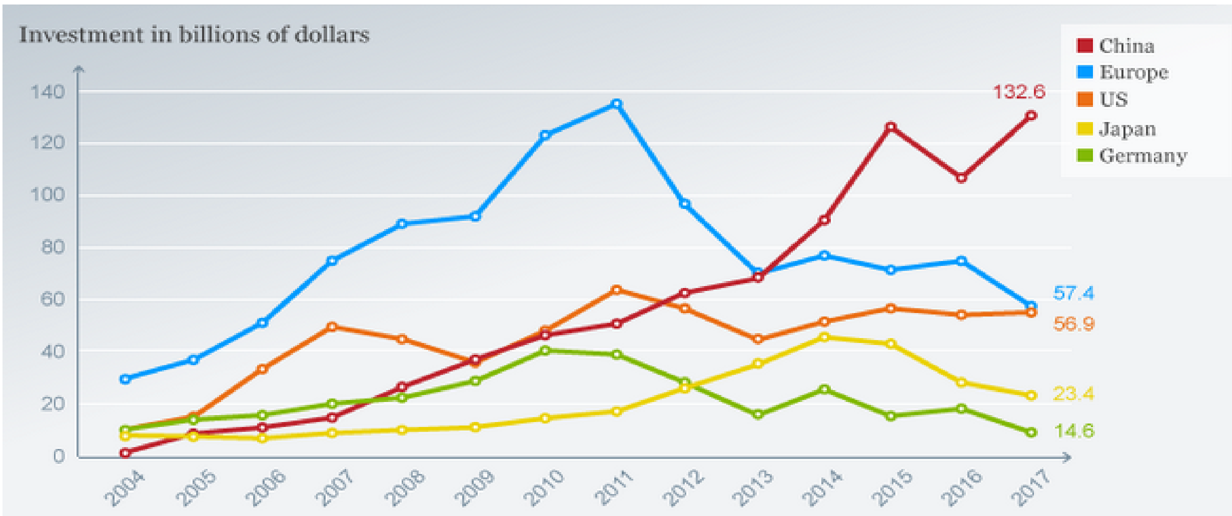
[1] Bureau of Economic Analysis ; note – figures are in billions, at seasonally adjusted annual rate
[2] https://www.alphama.it/uploads/pdf/153726855935378.pdf

(Source: Adaptation after tradingeconomics.com, 2019)

Figure 2. US economic growth in the last 3 years

2. As a consequence of the above mentioned stimulus, the US economy is on the overheating path, and therefore the inflation is going up above target. Normally, the Fed will react by increasing the federal funds rate from 2%, as it is today, to around 3.5% by 2020, and that will most probably put a pressure on short and long term interest rates as and maybe even against the US dollar. On the other hand, other important economies are facing inflation, and January rising oil prices may bring additional contribution to inflationary pressures. With other words it means that if other important central banks will pursue the Fed policy, we will have a reduction of global liquidity and so interest rate will goes up.
3. The Trump US administration trade wars with China, Europe, Mexico and Canada will nevertheless surely overheat and the consequence cannot be other than a slower economic growth and a higher inflation. US and China have imposed each other tariffs on 360 billion USD: the United States imposed tariffs on 250 billion USD of Chinese goods while China reacted with penalties of 110 billion USD on US merchandises. Economists warn that the prolongation of the dispute will ultimately affect the advance of the economy not only in the US and China but also globally. Economists also claim that Beijing could let the yuan depreciate to help exporters affected by US tariffs. Another problem may come from the fact that there is no infrastructure policy to address supply-side bottlenecks.
   According to a European Central Bank simulation, the United States will suffer the most if it commences a war trade with other countries, while China will do better after the repression. The ECB study simulates the introduction by the US of 10% customs duties on all similar imports and countermeasures in other countries. The results suggest that the United States will have the most to lose because of the diminished trade and damage to consumer and investor confidence. "Estimated results suggest that the net US export levels will deteriorate substantially, and US firms will invest less and hire fewer workers, which will amplify the negative effect," the ECB warned[3].
   In a Wall Street Journal's monthly survey of economists realised in December 2018, about 85% of the respondents said the is a serious risks for the US economy to decrease — the most since at least the start of 2015. The main cause of this perception is the trade war with China. Overall, 47.3% of the economists who took part on the survey said that US and China tariff war is the main threat to the economy in 2019, and this is the highest percentage of any single threat.
   In the same time we have to say that there are few signs of reconsideration of this aspect from Trump administration side, the 2 head of states had a head to head meeting on the G20 occasion, in December 2018, and greed to a ceasefire in their bitter trade war.
4. US policies will pursue their path and in doing so will force the Fed to raise interest rates at a even higher level. The administration will probably continue to restrict investments inward/outward and technology transfers. There is a strong will to block Chinese investments in US and American investments in China and inevitably the consequence will consist in a disruption of supply chains. Another warring aspect is coming from the restriction of immigrants to work in US but there are some studies that proved there is a need of these people to maintain growth since the US population ages. The National Academy of Sciences recently released a comprehensive report in 2017 - The Economic and Fiscal Consequences of Immigration[4] - finding that immigration has an overall positive impact on economic growth. Moreover, while new immigrants may have a slight depressing effect on the wages of prior immigrants, they have small to no effects on wages and employment for the native-born population.
5. Since Trump withdraw from Paris Agreement and declared as being a climate sceptic we faced a sort of discouraging investments in the green economy. The graphic bellow shows a certain stagnation of investments in renewable in US but also in other parts of the world. China is the only major economy where the investments are on a growing path due to a shift in internal policy.

[3] https://www.ecb.europa.eu/pub/economic-bulletin/focus/2018/html/ecb.ebbox201806_01.en.html
[4] https://www.nap.edu/catalog/23550/the-economic-and-fiscal-consequences-of-immigration



(Source: Adaptation after weforum.org, 2019)
Figure 3. Investment in renewable energy

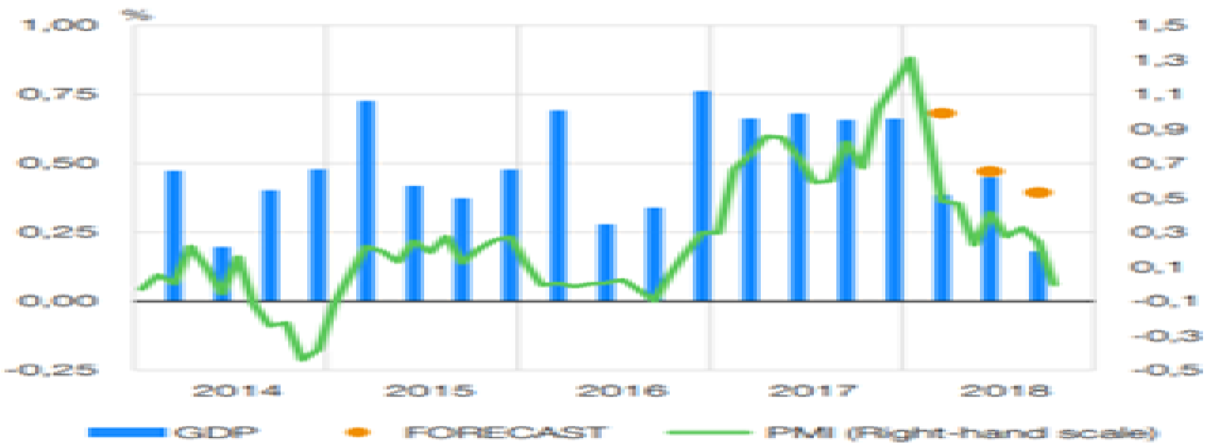
6. As a reaction of US protectionism, other countries will be forced to respond by protecting themselves. All these answers will generate a global economic slowdown. China will be forced to slow its growth to deal with overcapacity and excessive leverage. Even though it is believed that in 2018 Chinese companies will find new markets on the countries where US imposed tariffs still, on longue term, once the American companies will be adapted, even the Chinese will suffered, otherwise a hard landing will be triggered. The other emerging markets, which are by definition more fragile than steady economies, will continue to be exposed to protectionism and to tightening monetary conditions coming from the US.
7. It is largely accepted that Europe too, will face slower growth, due to monetary-policy tightening and trade frictions. The European economy has also slowed in 2018, with Germany even reporting a surprising contraction in the third quarter. Trade is one of the main reasons since China may reduce its demand while regarding the relationship with US is characterised by an unprecedented uncertainty.

2. FINDINGS

In any case, the biggest instability is coming from the perspective of a “hard” Brexit in which the United Kingdom leaves the European single market and customs union without any deal. And this situation will definitely bring a slowdown of economy for both sides.

From 2.4% in 2017, Euro area GDP growth is forecast to be 2.1% in 2018 and 1.9% in 2019, slightly below the growth rate projected back in the last summer. Even more complex, it is then expected to ease smoothly to 1.7% in 2020. Exogenous factors, such as incertitude of world trade outcomes, rising political risks and higher oil prices will have an erosion effect on growth in general, while economic activity should also weaken as labour market improvements slow.

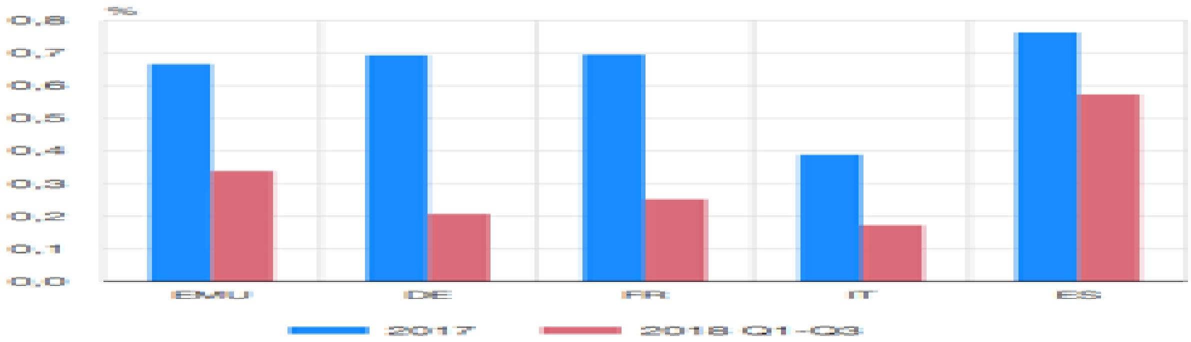
In the graphics below[5] we can see there is a clear trend of slowdown. Following the pick of economic activity of 2017 when the average growth quarter to quarter stood near 0.7%, in the first three quarters of 2018 Eurozone faced a 0.3% (0.15 in Q3). The situation has been larger than anticipations and will affect all big European economies.



(Source: Adaptation after Eurostat, European Commission, ECB and IHS Markit, 2019)

[5] Eurostat, European Commission, ECB and IHS Markit

Figure 4. GDP QUARTERLY GROWTH



(Source: Adaptation after Eurostat, European Commission, ECB and IHS Markit, 2019)
Figure 5. AVERAGE GDP QUARTER-ON-QUARTER GROWTH

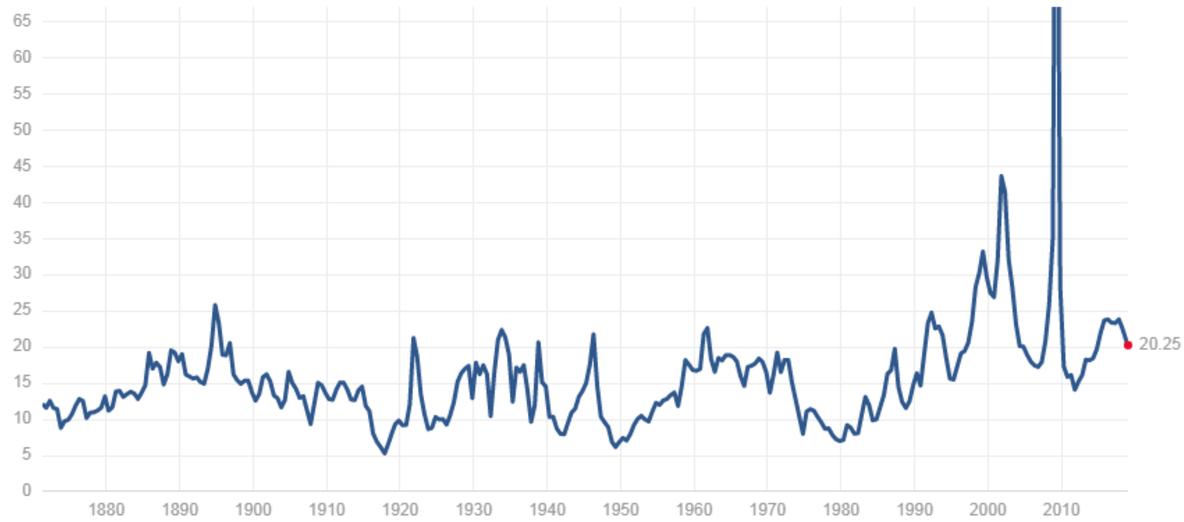
Moreover, anti-governmental movement like “gilettes jaunes” in France or populist policies in countries such as Italy can push the governments of Eurozone to a policy of unsustainable debt. Still there is a complicated relation between governments and banks that are financing public debt. This situation can only create enormous problems to the monetary union because of the unsustainable risk-sharing level. Having in mind this global picture, we believe that another global turbulence could push Italy and other countries (Hungary and Poland are continuously expressing their disagreement with Brussels officials) to exit the Eurozone altogether. All institutions predict a reducing of a real GDP in the next two years together with a growing inflation.

Table 1. GDP growth forecast

		2017	2018	2019	2020
ECB					
	September 2018	2,5	2	1,8	1,7
	June 2018	2,5	2,1	1,9	1,7
European Comission					
	November 2018	2,4	2,1	1,9	2,7
	July 2018	2,4	2,1	2	...
MFI					
	October 2018	2,4	2	1,9	1,7
	July 2018	2,4	2,2	1,9	...
OECD					
	September 2018	2,5	2	1,9	...
	May 2018	2,5	2,2	2,1	...
Survey Professional Forecaster					
	October 2018	2,5	2	1,8	1,4
	September 2018	2,5	2,1	1,8	...
Eurobarometer					
	October 2018	2,5	2	1,8	1,6
	September 2018	2,5	2,1	1,8	...

(Source: Processing based on Eurostat data, 2019)

8. US and global equity markets are bubbling. According to Robert J. Shiller in his book Irrational Exuberance, price-to-earnings ratios in the US are 50% higher than the historical mean; private-equity valuations is also at unrealistic high levels. Since the value exceeded the prices registered during 2007-2008 crises, it is highly probable in the near future to deal with a repositioning of the prices.



(Source: Adaptation after Shiller, J, Robert[6], 2019)
Figure 6. S&P 500 PE Ratio by Year

And high-yield credit is also becoming increasingly expensive now that the US corporate-leverage rate has reached historic highs.

There is common perception about the commercial and residential real estate which are extremely expensive in some places in the world, without having a real explanation, just because of some irrational feelings. Therefore it is normal to believe that we will assist to a certain correction of price equities in some emerging economies; commodities and fixed-income investments will suffer as well when a global slowdown will be visible. Since the investors are always trying to anticipate, a major or even a continuing but steady decrease of global economy in 2020, we can see a markets repositioning assets by end of 2019. The moment when the correction happens we will have a cascade effect and therefore the risk of illiquidity and consequently selling under-priced will become seriously.

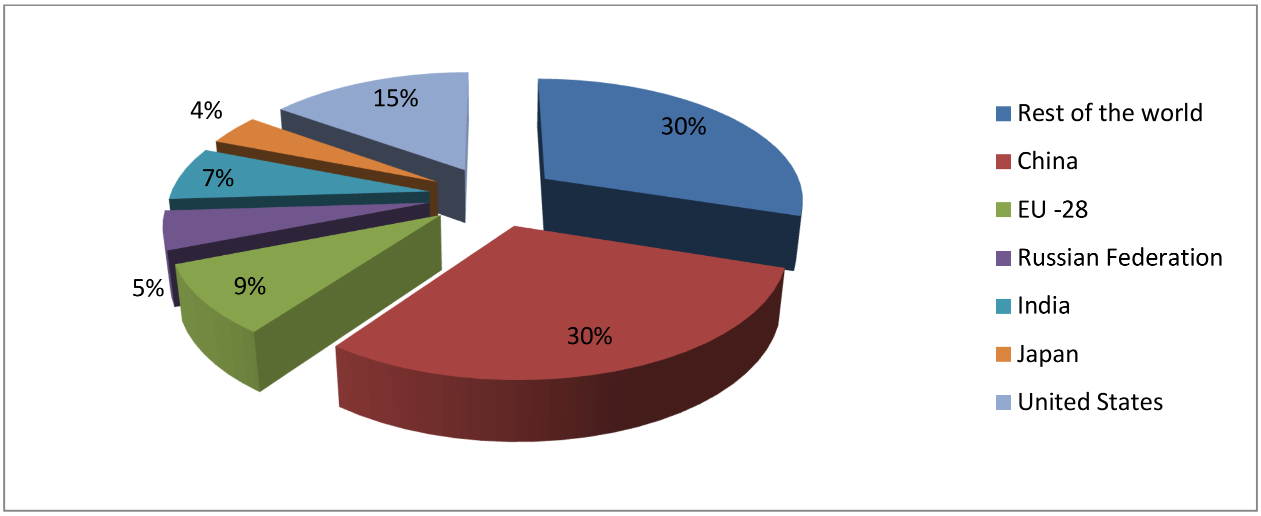
9. Trump has started a series of attacks was against Fed when the growth rate was recently announced to be at 4%. Trump has complaining for months about Fed monetary policy, blaming on the increasing interest rate is a barrier to his economic plans. On 24 of December, he tweet "The only problem our economy has is the Fed. They don't have a feel for the market; they don't understand necessary Trade Wars or Strong Dollars or even Democrat Shutdowns over Borders. The Fed is like a powerful golfer who can't score because he has no touch - he can't putt!"[7].
   Now, if we take into consideration that 2020 will be an election year and most of predictions say that US economic growth will be around 1% and job market will sink we think that Mr. Trump will be very tempted create a foreign-policy crises. It will be a perfect strategy to put the blame on others and to regain the popular trust. On top of this is coming also the fact that Democrats took the House of Representatives which had as first effect the longest government shutdown.
10. On the international geopolitical stage, since Trump has already declared a trade war to China and it looks like he is developing better relations with nuclear-armed North Korea, probably US president will focus on his preferred target - Iran. By starting a military conflict with this country, the world will face a geopolitical shock. In this case we can count on the oil-price spikes as it was the case in 1973, 1979, and 1990. And all this will contribute even more to spin off the complexity of the oncoming global recession. Venezuela can be a good starting point of these geopolitical crises: both parties positioned on different sides: US and to certain extent EU with the opposition while Russia, China, Iran, and Turkey with Nicolas Maduro. Since it is an ongoing conflict it will be interesting to see but too early to take conclusions. Comparing with 2008, once the crisis begins, fighting against it will be more complex since the policy tools are less power. Meanwhile (as we can see in first graphic) the public debt has increased and fiscal stimulus bullet was already been shoot. The space for other unconventional monetary policies will be limited due to unrealistic balances but also due to a different view of the Fed regarding the possibility of low monetary policy rates. Rescue solutions in the financial sector will be difficult to admit in countries with increasingly populist movements and where governments have serious solvency problems. We must remember that if in 2008 the governments still had a handful of policy tools to try to avoid an uncontrolled fall, today those who are in a position to make political decisions to solve the problems generated by the next crisis will be limited, and this because the level of global debt is higher than in the previous period. When it happens, the next crisis and recession could be tougher and longer than the last.
11. ***The climate crisis is the number one threat to the global economy as it is a threat to other sectors of life as well***; this idea was also shared by Al Gore (ex US vice-president and a Nobel Prize winner in 2007 for his work on global warming) at the recent World Economic Forum in Davos, 22-25 January 2019. We all know that for a certain time, the world leaders started to take action against or to reduce the effects of global warming. There are a number of initiatives all over the world,

[6] Shiller, J, Robert, Irrational Exuberance: Revised and Expanded Third Edition, Princeton University Press, 2015
[7] https://twitter.com/realDonaldTrump

from private sector to policies makers, by different areas of communications including social networks, having the main objective to make people to act against global warming. Still, up until today, the biggest decision was taken in Paris 2015 by almost all states - to strengthen the global response to the threat of climate change by maintaining the increasing global temperature well below 2 degrees Celsius above pre-industrial levels and to do real efforts to limit the temperature go higher with more than 1,5 °C.

After more than 3 years what is today reality? Climate Action Tracker (CAT) is an independent scientific analysis produced by three research organisations who are tracking progress of Paris agreement.

It is obviously that only few countries are making real efforts in order to fulfil the objectives but when we take into consideration the biggest polluters of the planet the situation is even more desperately.



(Source: Own representation based on data obtained from Boden, T.A., Marland, G., and Andres, R.J.[8], 2019)

Figure 7. Percentage of global CO_2 emissions from Fossil Fuel, Combustion and Industrial Processes

So only if we take China, USA and Russia we have 3 countries ranked as critically or highly insufficient but those three are responsible to producing almost 50% of all CO_2 in the world. To be honest, the conclusion is clear; there are no or very less advancements in reaching the objectives.

But is it there a clear economic loss due to climate change? Let's see few of the main neutral researcher's findings.

3. ARGUMENTS AND RISKS ANALYSES

In order to visualize better the importance of each argument we will create our own assessment and we will evaluate each trigger for a future crises from different perspectives. The assessment is based on three main criteria as probability of occurs, potential damage to the whole economy, how many people will be affected. We ranked from 1 to 10, 1 being the lowest and 10 the maximum level.

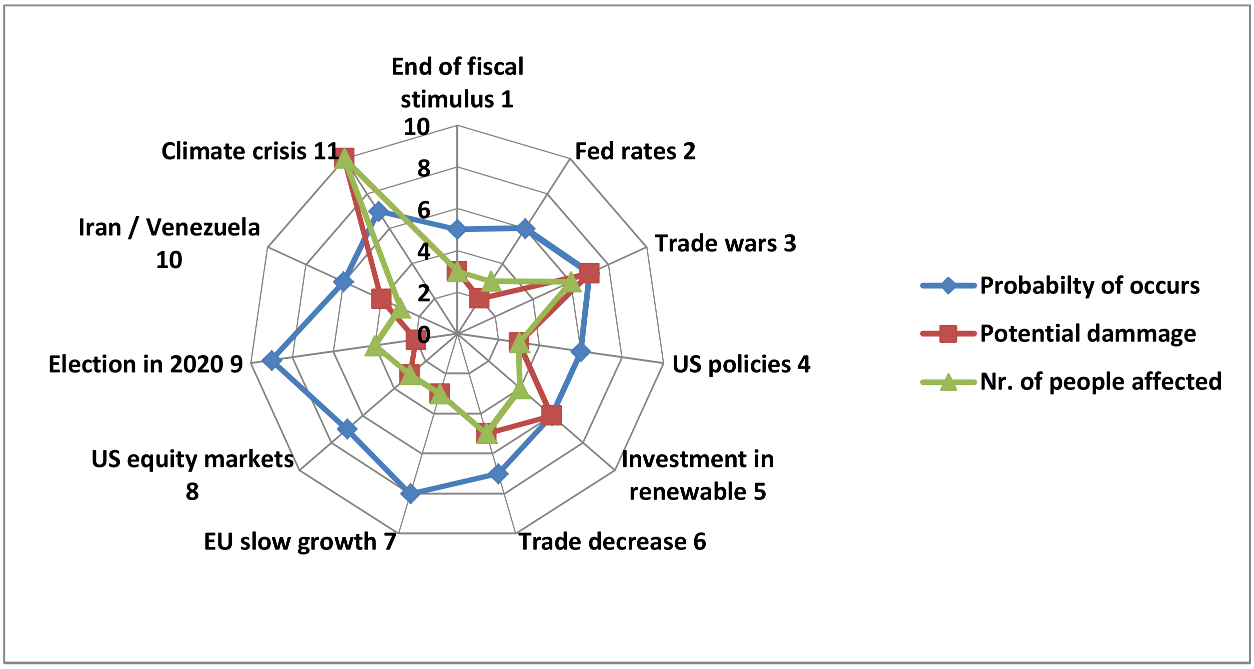
Table 2. RISKS ANALYSES

	1	2	3	4	5	6	7	8	9	10	11
Probabilty of occurs	5	6	7	6	6	7	8	7	9	6	7
Potential dammage	3	2	7	3	6	5	3	3	2	4	10
Nr. of people affected	3	3	6	3	4	5	3	3	4	3	10

(Source: Own assessment, 2019)

It is acknowledged there is a risk of contagious between this arguments and one can influence other, not to mention the overall systemic risk that connect the entire world economy. Anyway, in this assessment we took into consideration each argument solely, according with our own perception.

[8] Source: own representation based on data obtained from Boden, T.A., Marland, G., and Andres, R.J. (2017). National CO2 Emissions from Fossil-Fuel Burning, Cement Manufacture, and Gas Flaring: 1751-2014, Carbon Dioxide Information Analysis Center, Oak Ridge National Laboratory, U.S. Department of Energy, doi 10.3334/CDIAC/00001_V2017



(Source: Own representation based on data series estimated on the assessment, 2019)

Figure 8. Arguments assessment

From the graphic above we can visualise that all arguments are important but only few are really serious giving the high probability to occur and the number of people affected. US political issues and EU slow growth will affect the entire economy but not to the extent of a crisis. Nevertheless some international political issue like situation in Venezuela could evolve at unknown levels. Trade wars remain the second most important argument for a future crisis since is already started and very few signs of reaching to an understanding between the main actors. It is clear that it affects most of the large economies and it may degenerate to dangerous levels. Obviously, the main factor that could generate a global economic crisis is a climate crisis. The only incertitude is not if but when it will happen. There are no doubts among the Scientifics from both sides, economic and environmental, we will all face the consequences of the global warming and a lot of money and energy will be lost to fight against. Meanwhile few global political initiatives were launched but it looks that the biggest polluters are against or not convinced about the necessity or implementation. The main excuse is that they don't see a clear link between global warming and negative economic effects. We are presenting just few of them.

4. DISCUTION: ECONOMIC IMPACT OF CLIMATE CHANGE

- In a report published In May 2018, Stanford University scientists calculated[9] what would be the cost for the global economy caused by global warming. Supposing that all world nations (US, Russia included) will be active supporter of Paris Climate Agreement and the temperature will go up only 2,5^{o}C then global GDP would fall 15%. If the target is not respected and the temperatures reach 3^{o}C more, we will have a contraction of global GDP by 25%. If we keep going with business as usual (with other words we don't take any measure comparing with our standard of life), temperatures will go up by 4^{o} C by 2100. Consequently, the global GDP will have a bigger correction - more than 30% from 2010 levels. This situation is worse than the Great Depression, when global GDP fell 25%. Comparing with that time, we have to think that this situation will last forever and not only a limited number of years.

- The International Labour Organisation, in the World Employment and Social Outlook 2018[10], calculated that 1.2 billion jobs are at risk to be lost because of climate change. Agriculture, fisheries, and forestry are the main industries that will face difficulties. It is estimated that natural disasters cost is the equivalent of 23 million working life years since 2000. The report also concluded that in order to invert the global warming process it is needed 24 million new jobs by 2030. As time is passing without action, more jobs will be lost and we'll have to work more to recover.

- The reality of the last decade shows us that America (and some parts of Europe) is facing more extremely hot days. If we think that extremely high temperatures cause dryness, consequently the scarcity of food on the market will draw an increase of prices. And this connection can be seen immediately on US market of corn and soybean, once the temperatures are exceeding a certain level. Thinking that this is the food for all animals it is easy to understand why we have increasing of prices for any type of meat. If add to this the fact that productivity of outdoor workers decline due to high temperatures, than we have a complete picture of causality between high temperature and food prices.

[9] https://www.nature.com/articles/s41586-018-0071-9
[10] https://www.ilo.org/weso-greening/#Intro-1

- Climate change will transform millions of people into “climate migrants”. Immigrants are escaping crop failure, water scarcity, sea-level rise and places where extreme natural disasters are more frequently. United Nations High Commissioner for Refugees estimated that since 2008, because of extreme weather conditions 22.5 million were forced to leave their habitats. But we are facing an ongoing situation and until 2050, the specialist considers that another 700 million people will be forced to relocate.

CONCLUSION

In this paper we tried to create an assessment of all main factors that could generate a global crisis at horizon of 2020. We bring arguments from different area (political, international social conflicts, strategically and environmental) and we reach to the conclusion that the most worrying factor remains the global warming (Burlacu, S., Gutu, C., & Matei, F. O. 2018). Despite the general opinion from various area of research saying that we are living the last years before the explosion of an environmental crisis, still the main political leaders of the world don’t have the same perception (Bran, F.; Alpopi, C., & Burlacu, S., 2018). It looks like people who are living on the planet have a different agenda with this one but unfortunately, the pay bill will come and it will be expensive (Burlacu, S., Bodislav, D. A., & Rădulescu, C. V., 2018). The situation is alarming among the business leaders as well – in order to reach to World Economic Forum in Davos (were one of the main themes was environment) they were used around 1500 private jet planes, 200 more comparing with 2017. So talking about climate change is politically correct, acting is the real problem.

REFERENCES

1. Anghelache C. (2012). Romania 2012. Economic condition in a perpetual crisis, Editura Economică, Bucureşti.
2. Alan R. Andreasen, „ The Promise of Social Marketing”, 1994
3. Bob Wyss, “Covering the Environment: How Journalists Work the Green Beat”, Routledge, 2007.
4. Boyce, T. & Lewis, J., “Climate Change and the Media”, Peter Lang Publishing, New York, 2009.
5. Bran, F.; Alpopi, C., & Burlacu, S. (2018). Territorial Development-Disparities between the Developed and the least Developed Areas of Romania. *LUMEN Proceedings*, *6*(1), 146-155.
6. Burlacu, S., Bodislav, D. A., & Radulescu, C. V. (2018). E-Commerce and Global Food Resources. *Managerial Challenges of the Contemporary Society. Proceedings*, *11*(2), 48.
7. Burlacu, S., Gutu, C., & Matei, F. O. (2018). Globalization–pros and cons. *Calitatea*, *19*(S1), 122-125.
8. Cox R. & , Pezzullo Phaedra C., “Environmental Communication and the Public Sphere”, 4th edition, printed in U.S., 2016.
9. Maxwell T Boykoff, “Climate change and journalistic norms: A case-study of US mass-media coverage”, Geoforum, vol. 38, issue 6, 2007.
10. Reinhart, C. and Kenneth, R. March 2008 “This Time is Different: A Panoramic View of Eight Centuries of Financial Crises.”. NBER Working Paper Series., http://www.nber.org/papers/w13882.pdf.
11. Rudiger A., Catte, P. and Price, R., “Monetary Policy, Market Excesses and Financial
12. Turmoil□”, Economics Department Working Papers, No. 490, OECD, Paris, 2006.
13. Shiller, J, Robert, Irrational Exuberance: Revised and Expanded Third Edition, Princeton University Press, 2015
14. Stephen P. D., John W. D. & Aepli Elsenbeer M. “Communication and Public Participation in Environmental Decision Making”, State University of New York Press, 2004
15. Trends and projections in Europe 2018, “Tracking progress towards Europe’s climate and energy targets”, https://www.eea.europa.eu/.