

Kaushik Basu: The Sorry State of the World Economy

Data released in January paints a bleak picture of advanced-economy prospects. Even if some emerging economies – which face serious challenges of their own – manage to pick up some of the slack, the world economy will remain encumbered by the combination of economic interconnectedness and political balkanization writes **Kaushik Basu**



Source: Shutterstock

January is traditionally a time for assessing the developments of the previous year, to anticipate what the new one has in store. Unfortunately, even though we may be at a turning point for the better politically, the data that has emerged in the last month does not paint a promising picture of the global economy's short-term prospects.

The tone was set early in the month by the World Bank's [Global Economic Prospects](#), along with the accompanying articles. The report paints a picture as bleak as its subtitle – “Darkening Skies” – and cuts the growth forecast for the advanced economies in 2020 to 1.6% (down from 2.2% in 2018).

Moreover, last week, the European Central Bank sounded the alarm over the eurozone economy. Between the prospect of a disorderly Brexit and rising protectionism, exemplified by the trade war between the United States and China, Europe is subject to increasing uncertainty.

Making matters worse, Germany is facing a growth slowdown. According to its official data, the [economy contracted](#) by 0.2% in the third quarter of 2018, while the Purchasing Managers Index for manufacturing [sank](#) to 49.9 – a four-year low. Given Germany's role as the backbone of the eurozone economy, its economic struggles are likely to cascade beyond its borders.

Even if some emerging economies manage to secure strong growth, however, the world economy will remain encumbered by the combination of economic interconnectedness and political balkanization

This is particularly problematic, because, after more than a decade of fighting crisis and recession, the advanced economies have depleted their ammunition for countering a slowdown. With the ECB's benchmark interest rate at zero, there is little room for a cut. The Bank of England has not risked raising interest rates since August. Even the US Federal Reserve signaled that it was slowing down the pace of its rate hikes. A new crisis would thus leave the advanced economies fumbling for fresh monetary instruments.

The future is somewhat brighter for the emerging world, though dark clouds loom there, too. As the World Bank report emphasizes, emerging economies are increasingly strained by government debt, which has risen by 20 percentage points of GDP, on average, since 2013, with payments owed largely to private creditors demanding high interest rates.

Africa is on a promising trajectory. As the [African Economic Outlook 2019](#) notes, the continent has had a challenging few years, with growth falling from close to 5% annually in 2010-2014 to only about 2% in 2016. Yet, last year, growth climbed back to 3.5% in 2018, and next year, it could surpass 4%, propelled by some of the world's fastest-growing economies, such as Ethiopia and Rwanda, which are posting annual growth rates well above 7%. Nonetheless, with major players like Nigeria and South Africa punching well below their weight, Africa is not yet in a position to pick up the slack left by the ailing advanced economies.

Africa is on a promising trajectory and the situation is more promising in Asia.

The situation is more promising in Asia. China has played a major role over the last 30 years, but currently, it is clearly in an adjustment phase, as it shifts to a higher-wage lower-growth economy. In 2018, Bangladesh, India, and Indonesia grew by an impressive 7.9%, 7.3%, and 5.2%, respectively, and the World Bank estimates that, in 2020, growth will exceed 7% in South Asia and

6% in East Asia.

But, again, there are serious challenges ahead. In India, an employment crisis is looming, rooted in the country's focus on the big players and its failure to convert economic growth into good jobs, particularly for its educated youth.

Given this, the budget that will be presented to India's parliament on February 1 – just months before the general election, expected to be held between April and May, – will require extremely skilled policy design that creates programs to boost demand and employment, without running up the deficit. I believe monetary policy also has a significant role at this juncture. With inflation under control, the Reserve Bank of India could help stimulate the economy with a small cut in interest rates.

In Indonesia, President Joko Widodo – commonly known as Jokowi – is facing mounting criticism for failing to achieve the 7% growth target he set when he took office in 2014. In fact, Jokowi's target was always overly ambitious for Indonesia, an economy with a per capita income of over \$10,000 (adjusted for purchasing power parity).

Still, the government has important tasks to carry out. For one, the central bank's response to the depreciation of the rupiah – six interest-rate hikes in the last three quarters – may have been excessive, even though the currency reached a 20-year low against the US dollar last year. Moreover, there needs to be better coordination of policies across local governments, which have been competitively raising the minimum wage, undermining Indonesia's ability to take over low-cost manufacturing from China.

Yet Jokowi – who will seek another five-year term in the April election – remains a source of hope. Illustrating his commitment to inclusivity, he is among the few political leaders in the developing world who have spoken up in favor of LGBTQ+ rights. If he is able to leverage his valuable personal qualities – which include a commitment to secularism and modesty that is becoming increasingly rare among political leaders – to push for needed structural reforms, Indonesia can achieve 6% annual GDP growth, making it a powerful driver of regional and global economic performance.

Even if some emerging economies manage to secure strong growth, however, the world economy will remain encumbered by the combination of economic interconnectedness and political balkanization. At a time when the world urgently needs to improve the coordination of monetary, fiscal, and trade policies, it has, instead, been rolling back what little coordination previously existed. This is a direct result of worsening leadership in major economies, especially the US under President Donald Trump.

It is impressive what US institutions – from the Fed and the judiciary to state governments, the media, and academia – have been attempting during these trying times. One also hopes voters globally will recognize the folly of nationalism and xenophobia in a deeply interconnected world.

If none of this happens, my advice is simple: adopt the brace position.

[This article was published on Project Syndicate on Jan 30 2019](#)

Author

Olivia Grace

Editor

olivia.grace@ing.com

Julian Geib

Junior Economist, Global Trade

julian.geib@ing.de

Zoltán Homolya

Economic research trainee

zoltan.homolya@ing.com

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@ing.com

Michiel Tukker

Senior UK & Eurozone Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Senior Economist, Healthcare & Technology

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Deputy Global Head of Editorial and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporate Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands
marcel.klok@ing.com

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com