Upturn in global economy will not last, says World Bank

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The World Bank has pointed to an uptick in global economic growth for the coming year but warned that the small expansion is as good as it will get for the foreseeable future.

In its *Global Economic Prospects* report issued on Tuesday, the bank said world economic growth would reach 3.1 percent in 2018. This was after a better than expected outcome for last year, with a recovery in investment, manufacturing and trade, as well as increasing commodity prices.

Global growth is estimated to have been 3 percent in 2017, above last June's forecast of 2.7 percent, with increases in more than half the world's economies. A rise in global investment growth—a result of favourable financing costs, rising profits and improved business sentiment—accounted for three quarters of the increase.

However, the report described this movement as largely a "short-term upswing," with growth potential slowing over the longer term. It cited "particularly worrying" longer-term risks associated with "subdued productivity and potential growth."

"The slowdown in potential growth is the result of years of softening productivity growth, weak investment, and the ageing of the global labour force," the bank said in a press statement summarising the report. "The deceleration is widespread, affecting economies that account for more than 65 percent of global GDP [gross domestic product]."

The slowdown is expected to start in the advanced economies, with growth to "moderate slightly" from 2.3 percent last year to 2.2 percent in 2018, and slow to just 1.7 percent by 2020.

The main factor in global growth over the coming year will be expansion in the emerging market and developing economies (EMDEs). Yet this will not be sustained.

"Despite the projected firming of activity among EMDEs over the forecast horizon, their underlying potential growth—which has fallen considerably over the past decade—appears likely to further decline over the next 10 years, reflecting a more subdued pace of capital accumulation, slowing productivity growth, and less favourable demographic trends," the report stated.

The bank cited "important downside risks," warning that disorderly financial market movements, such as an abrupt tightening of financial conditions and a rapid rise in market volatility, could trigger turbulence and derail the expansion. Such conditions could be "particularly acute" for those countries with large external financial needs and fragile corporate balance sheets.

The report said the "extraordinary monetary stimulus" of recent years raised concerns that it "may have encouraged excessive financial risk-taking." Central banks had to be very careful about how they normalised monetary policy because, despite measures to improve the financial system, "there are still risks to financial stability, including possible asset price overvaluation, rising leverage, and a concentration of risks in the non-bank financial institutions."

The bank pointed to dangers in China, echoing the analysis by the International Monetary Fund that China continued to face "vulnerabilities associated with high corporate indebtedness, particularly in sectors with overcapacity and deteriorating profitability." These could have "significant adverse repercussions on activity," with negative impacts on other economies, especially commodity exporters.

The report indicated that the 4.3 percent increase in the volume of goods and services traded internationally last year had been an important factor in lifting global growth. But it warned that the threat of protectionism

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was "still a major concern," highlighted by "the failure of G20 economies to renew their long-standing commitment to free trade and to resist all forms of protectionism."

That commitment was deleted from statements by all major global economic bodies last year, due to the insistence of the US that it be removed in line with the Trump administration's "America First" policy.

This sea change was underscored by an article by Rebecca Harding, published in the *Financial Times* yesterday, in which she pointed to the "the weaponisation of the language of trade."

Harding, the co-author of a recent book on global economic relations, wrote: "We now talk of enemies and adversaries instead of partners; of national interest, instead of opportunities for all; and of protectionism and walls rather than open borders and the end of the nation state. Gone are the halcyon days of 'everyone's a winner' version of globalisation that we have become accustomed to over the past 30 years."

These trends would continue, Harding noted. Trump was expected to announce a trade crackdown on China in his State of the Union address at the end of this month, following the recent issuing of the US National Security Strategy that advanced a strident "America First" agenda.

Pointing to the drivers of the slowdown in potential growth outlined in the World Bank report, the bank's senior director for development economics, Shantayanan Devarajan, called for reforms to promote education and health, as well as infrastructure spending, in order to bolster the economy. However, he warned that "some of these reforms will be resisted by politically powerful groups."

In keeping with the diplomatese of major global institutions, Devarajan named no names but these forces are easily identified. They are the financial and corporate oligarchies that dominate and control the global economic agenda and determine policy in every country.

These forces are implacably opposed to any so-called reform measures aimed at public spending on social services such as health and education, or on vital infrastructure needs, because that represents a deduction from the wealth available for appropriation by finance capital.

The US is a standout case in point. After passing the Trump tax cut agenda, handing out trillion of dollars to the corporate and financial elites, the two parties of financial capital, the Democrats and Republicans, are preparing for a further onslaught on social services to pay for these measures. In the so-called developing countries, the cuts in social spending in Iran and Tunisia, that have sparked major protests in recent days, are part of the same agenda.

The increase in global growth over the past year has helped fuel the stock market boom and financial speculation more broadly. But there are warnings that there is too much focus on the present cyclical upturn and not enough on the long-term trends.

According to World Bank economist Franziska Ohnsorge: "It is when growth fizzles out that there is a reassessment of growth prospects, which usually comes [with] a reassessment of debt sustainability, of any debts, public, private."

Jeremy Lawson, chief economist at the investment company Aberdeen Standard, said "one of the dangers of the current economic environment is to mistake a cyclical upswing for a sign that potential growth is much higher." While the present cycle could be considered "healthy," it had some "really concerning long-term features."

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