

WORLD ECONOMY: TRAVERSING UNCERTAINTY

A policy brief by Jan Svejnar, Columbia University

March 2017

CGEG

COLUMBIA
GLOBAL
CENTERS | BEIJING



School of Economics and Management
Tsinghua University



清华大学
公共管理学院
School of Public Policy & Management
Tsinghua University

Initiative *for* Policy Dialogue



清华大学 国家财政税收研究所
National Institute for Fiscal Studies, Tsinghua University

World Economy: Traversing Uncertainty

Jan Svejnar

James T. Shotwell Professor of Global Political Economy and Director of the Center on Global Economic Governance, Columbia University

For the last five years the global economy has grown at a disappointingly slow rate of about 3 percent. Every year the rate of growth fell below expectations and this gradually resulted in lower future output expectations and reduction in spending and potential GDP growth.

Global economic activity is now projected by many institutions to accelerate in the next few years. There is considerable uncertainty about the actual outcome, however, given the as yet not fully defined policies of the new U.S. administration and fragile political and economic situation in Europe.

There are both upside and downside risks to economic growth. In particular, global growth will accelerate if the US and China policy stimulus turns out to be large and if Europe finally enters a period of economic growth. On the negative side one observes a tendency toward inward-looking policy orientation and protectionism in the US, possible tightening in global financial conditions, increased geopolitical tensions, and a possible economic growth slowdown in China below the expected 6.5 percent.

China's economic policies have been, and I expect them to continue to be, effective. The risk to China's growth comes in my view primarily from potentially weak external demand, shocks to international trade, and slower private investment. In the US, the question arises about the size and composition of the fiscal stimulus, the actions of the FED, and the response of the business and household sectors. What is crucial is whether the US stimulus package will bring about dynamic effects in terms of rising productivity or just greater indebtedness of the economy. In the former case the effect would be a boost to global economic growth, in the latter case it would be a short-term gyration. Europe is showing signs of broader economic recovery, but the situation is fragile with Brexit, potential

Frexit, precarious situation of Italian banks, and rotation at the helm of the European Central Bank.

The following are key developments to watch out for as we go forward:

Will there be a turn a turn to protectionism in trade, FDI and technology transfer policies, which would have a negative effect on growth?

Will we observe a continuation of the slowdown in investment growth in emerging market economies, where it fell from double digits to less than 4 percent in recent years?

In Europe, will Brexit and other centrifugal tendencies lead to a greater risk of disintegration of the Eurozone or the EU?

In the US, will the FED persevere in meeting its targets of creating full employment and getting inflation to 2 percent; will the upcoming policy changes result in acceleration of domestic business investment?

Will financial vulnerabilities in a number of key countries translate into economic crises?

Will emerging market economies, especially China and India, play a bigger role in sustaining a co-operative global order?

Will the interplay between economics and geopolitics become a defining feature of global economic growth and stability?

Overall, the world economy has great strengths and considerable potential for growth. The risks and uncertainties are mostly brought about by potential policy steps rather than external shocks. It is up to the key global policy makers to realize or waste the opportunity for further advancement.



COLUMBIA | SIPA

Center on Global Economic Governance

Center on Global Economic Governance, SIPA
1401 International Affairs Building
420 West 118th St., Mail Code 3328, New York, NY 10027
Tel 212-854-5310 | cgeg.sipa.columbia.edu
 @CGEG_Columbia