The big shortcoming: A grumpy 2020 for global growth

PARIS: US political clouds coupled with wider climate and digital transformations point to a tricky 2020 for the world economy, although experts say a lurch back to crisis is improbable.

The Organisation for Economic Co-operation and Development said last month that activity had been hobbled by weaker trade and investment in the past two years, as US President Donald Trump pursued a trade war with China. The OECD expects global growth to dip in the coming year to 2.9 per cent, its lowest level since the world recession of 2009.

Trump appears to have struck a truce with China for now, under a "phase one" pact announced this month, but pre-existing tariffs remain in place and it will take time to demobilise their effects. More broadly, the OECD contrasted proactive actions taken by central banks with the policy foot-dragging by governments in the face of climate change and the march of technology.

Industrialists and investors are having to correct their climate strategies even as Trump sits firm in his policy of denial. Oil giant Saudi Aramco recently had to trim back the volume of its gigantic share offering. The International Monetary Fund was a little more optimistic in its latest World Economic Outlook, forecasting 2020 growth of 3.4 per cent but warning nevertheless of a "synchronised slowdown and uncertain recovery". At a time of populism and protests around the world, politics will remain an economic wild card next year.

Trump heads into the November presidential election under an impeachment cloud, and Britain's Brexit divorce from the European Union will likely be sealed next month, following Prime Minister Boris Johnson's election triumph. The rise of technological giants sitting on mountains of data is meanwhile challenging the distribution of wealth between governments and big business, and has the potential to reshape the world of work as artificial intelligence exploits that data.

The likely impact of the digital transformation on growth is a big unknown. The online arena has emerged as another front for Trump's trade wars, after he threatened tariffs on France over its digital tax imposed on the likes of Amazon, Facebook and Google. Europe is threatening a collective response.

BETWEEN HEAVEN AND HELL: Ludovic Subran, chief economist of German insurance giant Allianz, sees a global "purgatory of growth" coming up. Any systemic shock next year "will probably not be born in finance, but will be exogenous, for example a big regulatory shock on personal data, or in relation to the climate", he said. If Trump survives the impeachment process and wins a second term, he could "double the bet against China" at the risk of military confrontation, Subran added.

Trump and his potential challengers on the Democratic left are united in their hostility to the free-trade and liberalisation agendas that, they argue, hollowed out industrial America over the past decades. The mistrust is felt well beyond the United States. His trade war with China didn't do the world economy any good, will the peace? "We're not worried about how to overcome a cyclical crisis, we know what to do," said Ingo Kuebler, the staff representative at Mahle, a German automotive supplier that has already been forced to downsize as car buyers turn away from diesel engines.

"The big issue is transformation, digitalisation, electric mobility," he told AFP, fretting that an influx of cheap Chinese car batteries means "we are dreading the loss of many jobs".

THE BIG INCOME GAP: Since the financial crisis a decade ago, central bank policies have led to negative interest rates spreading in some countries, squeezing bank profitability and inflating private debt. With growth faltering, the debate about wealth distribution will likely become still more acute. Anger at inequality runs like a thread through protest movements from rich Hong Kong to developing Chile. In 2018, according to Oxfam, 26 billionaires had as much money as the poorest half of the world.

"Even when people seem to enjoy basic material comfort, they may still experience the same level of misery and unhappiness as the poorest," French academic Esther Duflo said in October after she won the Nobel Prize in economics. US investor Steve Eisman of "The Big Short" fame thinks that another global crisis is unlikely, but the best that can be hoped for is a slow strangulation of growth. One systemic crisis per lifetime is quite enough, according to Steve Eisman "What will happen next time, whenever it does happen, will be your normal garden variety of recession where the economy slows and goes negative and people lose money. That'll be painful enough," Eisman told AFP.

"A systemic crisis? Once was enough for our lifetimes," he said, reflecting back on the implosion of 2007-2008 that made hundreds of millions for his hedge fund when he correctly foretold the US subprime collapse. **—AFP**

TIANJIN: A worker drives a truck carrying a container at a logistics centre.

China's northeast cornbelt likely to be hit by fall armyworm in 2020

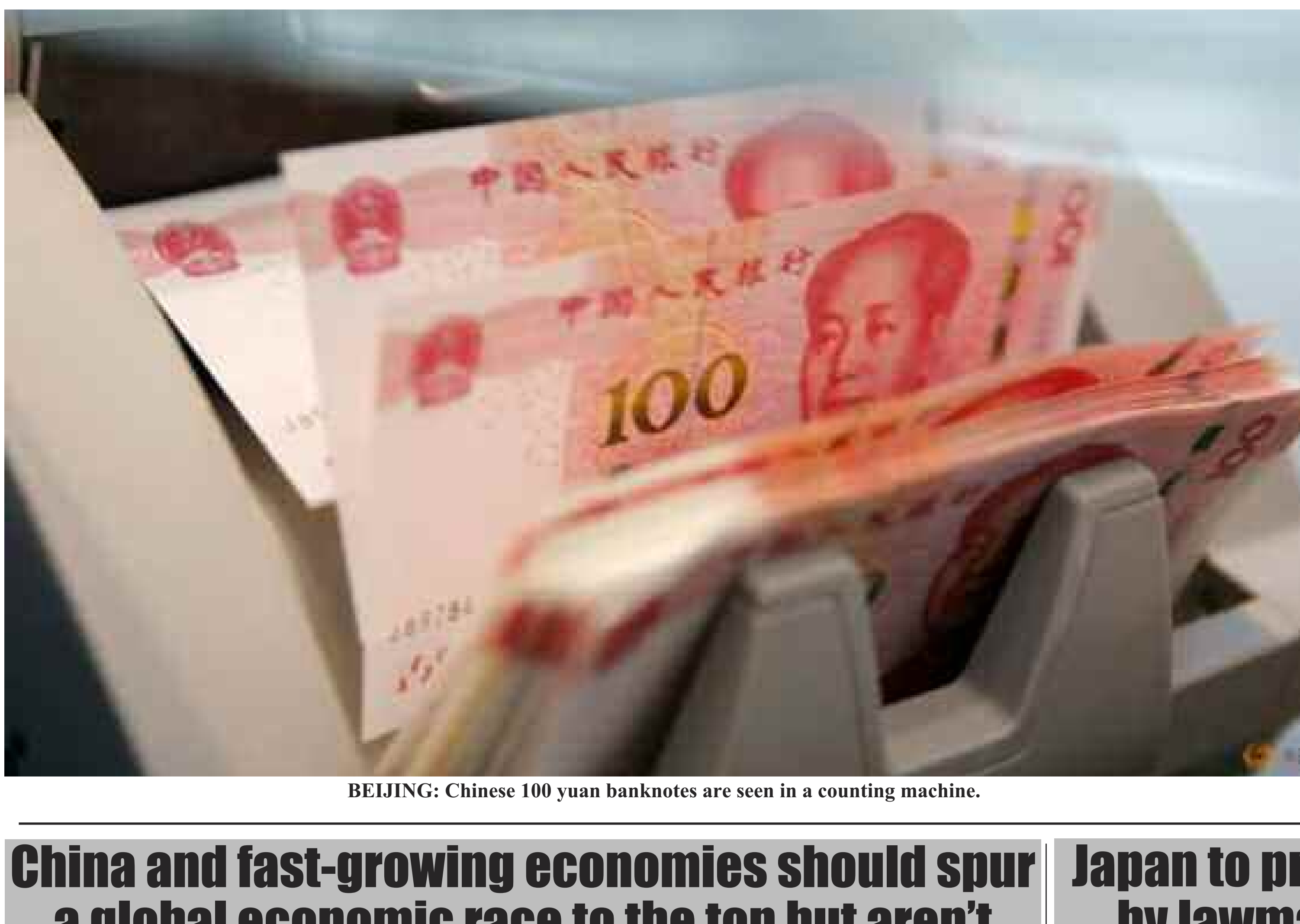
BEIJING: China warned earlier this week that a destructive pest that has threatened the country's grain output is expected to hit more crops across wider areas in 2020, including the key corn-growing region in the northeast.

Fall armyworm, first detected in China's southwestern province of Yunnan in January this year, is expected to spread to the corn belt in the northeast next year, a government institute said in a report on Monday, citing the pest's reproduction patterns and high mobility. "It is expected that in 2020, fall armyworm will be very severe and the situation will be extremely grave," according to the report by the National Agriculture Technology Extension Service Center (NATESC), an institute under the Ministry of Agriculture and Rural Affairs. Once the larvae of the fall armyworm moth become big, they eat through chunks of leaves. The pest infested 1.13 million hectare of land in 26 provinces and regions in 2019, NATESC said in the report. Fall armyworms, which feast in large numbers on the leaves and stems of many plant species, including sorghum, corn and sugarcane, can't be eradicated and can infest and damage hundreds of hectares of crops in a single night.

China is the world's second-biggest corn consumer and producer. While 98.1 per cent of the land infested by fall armyworm in 2019 was corn field not in the northeast, 19 other crops including wheat, ginger, sugarcane and sorghum were also hit, NATESC said in the report, published on its website. Beijing warned earlier this year that armyworm was a severe threat to the country's food security and in May launched a campaign to "snatch grain from the insect's mouth". With its arrival expected in the north early next year, the report warned of an increasing risk that armyworm will hit corn during its budding period, devastating young crops. In the absence of corn, the pest will turn to wheat in neighbouring areas.

Larva of the pest has already been found in 608 hectare of wheat field in China since late September, in provinces including Shandong, Henan and Jiangsu, major growers of the grain in China, the world's top consumer and producer of wheat, according to the report.

Corn crops hit by armyworm in a field in Nuodong village of Menghai county First found in the Americas, fall armyworm has spread through Asia since it was detected in southern India late last year. **—Reuters**



BEIJING: Chinese 100 yuan banknotes are seen in a counting machine.

Singapore's manufacturing output down 9.3pc in November

SINGAPORE: Singapore's monthly manufacturing output decreased in November after seeing an uptick in the previous months, data from the Singapore Economic Development Board (EDB) showed on Thursday. Manufacturing output fell 9.3 per cent in November on a year-on-year basis. On a seasonally adjusted month-on-month basis, production went down 9.4 per cent. The largest decrease in November was in the electronics cluster, which fell 20.9 per cent. The entire cluster saw a decline in output, except for infocomms and consumer electronics, which grew 29.8 per cent, and data storage segments, which grew 23.1 per cent. Precision engineering output grew 9.7 per cent in November compared to a year ago. The machinery and systems segment expanded 10.6 per cent, while the precision modules and components segment recorded 8.6 per cent growth in output. Transport engineering saw a slight uptick of 2.1 per cent in November on the back of growth in the aerospace segment.

The land and marine & offshore engineering segments contracted. The general manufacturing segment reported a fall in output, at 1.5 per cent. While the miscellaneous industries segment rose 5.5 per cent with higher production of wearing apparel and construction-related products, the food, beverages & tobacco segment fell 3.6 per cent, and the printing segment fell 15.1 per cent. Biomedical manufacturing output fell 10.3 per cent in November on year. Under this cluster, the medical technology segment declined 4.3 per cent on the back of lower export demand for medical devices. The pharmaceutical segment fell 12.7 per cent. The chemicals cluster also dropped by 10 per cent with all segments recording a decline, according to EDB. The other chemicals and petrochemicals segments contracted 10.9 per cent and 17.8 per cent respectively, with output in the latter weighed down by maintenance shutdowns. **—Agencies**

China and fast-growing economies should spur a global economic race to the top but aren't

LONDON: Over the last 25 years, the relative growth rates of the world's major economies have changed dramatically. Six developing countries in particular – China, South Korea, India, Poland, Indonesia, and Thailand – have grown extremely fast during this period.

The rich G7 countries, on the other hand, have experienced slowing rates of labor productivity growth, and their combined share of world GDP has fallen from two-thirds to one-half.

SOME NEW THINKING NEEDED: Neoclassical growth theory, which has dominated economic thinking over this period, has not been able to explain this reversal of fortunes.

For anyone who has watched South Korean and Chinese firms triumph in one world market after another, it is difficult to believe that Western countries will be able to compete more effectively in the future simply by making their markets more efficient. If the developed world is to boost its competitiveness, the West needs to embrace some new economic thinking. That means gaining a better understanding of the growth process, and using this knowledge to develop policies that can help accelerate it. Moreover, we should not think that we can acquire this knowledge by building ever more complex and unrealistic mathematical models.

REVIEW THE FIXATION ON GDP: A good place to start is with the measurement of national wealth, and the fact that a country's GDP per capita is simply the sum of the value added per capita of all its economic organizations, mainly firms. Singapore Maritime Week draws members of the international maritime community for conferences and events that reflect the vibrancy and diversity of the city-state as a global hub port. Photo: Shutterstock. We then need to ask how firms increase their value added per capita. In the observable world, rather than the world of perfect competition embraced by neoclassical economists, companies can do this in two ways. They can increase their production efficiency, as Henry Ford did when he started using an assembly line to manufacture cars, or increase the competitive advantage of their products, as Steve Jobs did when he developed Apple's iPhone. Both Ford and Jobs increased the competitiveness of their firms by innovating. Countries like China and Singapore have done the same, helped along by lessons from more advanced economies. Both have declared themselves to be innovation nations, and have put innovation at the heart of government policy.

FOCUS ON INNOVATION: Western countries therefore need to understand three things in particular. First, they must increase their rates of innovation in order to compete better against fast-growing emerging economies. That will require them to develop policies that strengthen national systems of innovation, education, and training, and improve the governance and financing of their firms.

Municipal- and regional-level policies should support these goals. Second, the West needs to understand that there is a global ladder of economic development, the rungs of which represent increasing levels of organisational and technological complexity, and value added per capita. It is difficult for any firm to gain a competitive advantage in activities such as manufacturing cheap clothes and assembling electronic components, resulting in low value added per capita, and thus low wages and salaries. Employees work on a production line manufacturing camera lenses for cellphones at a factory in Lian By contrast, companies in industries such as aerospace and pharmaceuticals can build up significant competitive advantages, leading to high value added per capita and consequently high wages and salaries. Developing countries are rapidly moving up the ladder, and are increasingly competing directly with developed economies. **—Agencies**

Japan to proceed with casino plan, undeterred by lawmaker's arrest on bribery suspicion

TOKYO: Japanese authorities raided the headquarters of a pachinko operator on Thursday as part of a bribery investigation centred on a ruling party lawmaker, media reported, widening a scandal that could undermine government efforts to develop casinos.

The Tokyo-based firm was under investigation for possible ties to ruling party lawmaker Tsukasa Akimoto, who was arrested on Wednesday on suspicion of accepting bribes when he oversaw the government's policy on casino development, broadcaster NHK said.

Without identifying the pachinko company that was raided, NHK said its accounts were being scrutinised for any transactions involving Akimoto, who in the past served as a consultant for a firm that had dealings with the pachinko operator. Pachinko, a slot-cum-pinball form of gambling, is a national obsession though the number of players is declining as younger generations prefer to play games on their mobile phones.

Following Akimoto's high-profile arrest, media has reported that prosecutors have been expanding their investigation into whether he accepted cash and gifts from 500.com, an online gambling operator based in China interested in developing a casino in Japan. Prosecutors have not named the company. While Japan's top government spokesman insisted that Akimoto's arrest would not delay government plans to develop three casino resorts, the investigation will likely raise questions about the bidding process.

Laws to legalise casinos in Japan have been met with public opposition because of concern about gambling addiction. Akimoto is accused of receiving about ¥3 million in cash and a family holiday from officials at 500.com's Japanese subsidiary, according to media reports. He has denied any wrongdoing. The company has not responded to multiple requests for comment. Prosecutors have arrested three other people suspected of bribery and raided the offices of a former member of parliament for the ruling Liberal Democratic Party (LDP), Shigeaki Katsunuma, and current LDP lawmaker Takaki Shirasuka in connection with the case, media reported. Las Vegas-style casino resorts are among Prime Minister Shinzo Abe's plans to attract foreign tourists. Japan, which has a shrinking population and economy, is desperate to maintain growth in tourism, particularly after the Tokyo Olympics next year. —