Navigating the slowdown

Risks and opportunities as global economy enters new phase

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Great power competition: global trade
Tariffs, tariffs and more tariffs

*Duties have been placed on roughly US$360bn worth of bilateral trade*

**Major tariff actions:**

- Metals tariffs under 232, and China’s response
- Electronics and machinery tariffs (US$50bn)
- Miscellaneous manufacturing (US$200bn)
- Still no escalation to finished electronics goods
- Trade tensions to manifest in other areas (investment, tech)

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Tariff duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 23rd, 2018</td>
<td>~US$3bn</td>
<td>10% / 25%</td>
</tr>
<tr>
<td>July 6th, 2018</td>
<td>US$34bn</td>
<td>25%</td>
</tr>
<tr>
<td>August 23rd, 2018</td>
<td>US$16bn</td>
<td>25%</td>
</tr>
<tr>
<td>September 24th, 2018</td>
<td>US$200bn (US)/US$60bn (China)</td>
<td>5%-10%</td>
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<tr>
<td>G20 Ceasefire</td>
<td>-</td>
<td>-</td>
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<tr>
<td>February 24th extension</td>
<td>-</td>
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## Areas of contention

<table>
<thead>
<tr>
<th></th>
<th>Agriculture</th>
<th>Currency</th>
<th>Tech transfer</th>
<th>IPR</th>
<th>Services</th>
<th>Non-tariff barriers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese purchases of US agriculture goods</td>
<td>Manipulation of the renminbi exchange-rate for exports</td>
<td>Forced transfer of technology required under business terms</td>
<td>Infringement of US IPR by Chinese companies</td>
<td>Loosening of JV requirements in financial, technology (including cloud computing) services</td>
<td>Uneven enforcement of local laws against Chinese and foreign companies, e.g. AML, environmental compliance, etc.</td>
<td></td>
</tr>
<tr>
<td>Food and quality standards divergence</td>
<td>Role of market forces in setting the renminbi exchange-rate</td>
<td>Requirements for IP and technology localisation to participate in standards-setting processes</td>
<td>Lack of redress for US companies for infringements</td>
<td>Market access for credit card companies and other services firms</td>
<td>Unfair subsidies, procurement offerings and other support to Chinese SOEs</td>
<td></td>
</tr>
<tr>
<td>Biotech approvals for GMOs</td>
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<td></td>
<td>Licensing and security reviews that lead to IP leaks</td>
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## Prospects for a deal

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</tr>
</thead>
<tbody>
<tr>
<td>Good – China has made clear it is happy to commit to additional US agriculture imports, but it is unclear whether China would agree to more GMO approvals</td>
<td>Good – US and China both have an interest in a stable renminbi exchange-rate</td>
<td>Poor – any agreement difficult to enforce. China tends to see it as a business rather than policy matter, while abundance of local regulations would make implementation hard</td>
<td>Mixed – China wants to improve local IPR standards, but enforcement and penalties remain weak</td>
<td>Mixed – liberalisation underway in financial services, but less clear in other areas; national security is increasingly dominating the discussion over technology-related topics</td>
<td>Mixed – enforcement across challenging, while greater push towards increasing the role of SOEs in the economy points to more state support, not less</td>
<td></td>
</tr>
</tbody>
</table>
The fracturing of the technology landscape

*Competing spheres of influence may emerge*

- The dispute is increasingly spilling into telecoms and technology
- Trends in Chinese outbound investment
- “Spheres” of Chinese-led and Western-led influence?
- Can the US keep Chinese innovation down?

Source: The Economist Intelligence Unit.
The global economy
Challenges ahead … with some bright spots

- China is slowing
- Trade tensions are weighing on investor, business and consumer confidence
- A more dovish Fed and PBoC will provide some support
- 2019-20 not great for Europe, US, developed Asia
- But India, ASEAN will outperform
- Brazil will continue to emerge from deep recession of 2015-16

Source: The Economist Intelligence Unit.
China: managing change

The government will support growth in 2019-20

• China has tried to balance growth and stability targets for years
• “Moderately prosperous society” target will keep growth above 6% in the near term
• Beyond 2020 China will need to face its demons

Made in China 2025 is the central economic development policy

Belt & Road Initiative (BRI) is the key foreign policy

Source: The Economist; The Economist Intelligence Unit.
The US economy: strong for now

**Fiscal momentum will fade in 2019, trade fears will start to bite**

- US economy grew by 2.9% in 2018
- But the business cycle is showing signs of peaking
- Businesses and financial markets are worried by China slowdown, trade policy
- Even under a limited US-China deal, lingering uncertainty will weigh on growth
- If the economy stays buoyant, expect more Fed rate hikes

Source: The Economist Intelligence Unit.
The US: at full employment

If US growth holds up this year, the Fed may need to tighten further

Sources: Bureau of Labor Statistics; Haver Analytics; The Economist Intelligence Unit.
Europe: from Euroboom to Eurogloom?

Growth will continue to slow, and politics will remain fragmented

Sources: Haver Analytics; The Economist Intelligence Unit.

Economic risks

- China-US trade war sharply dampens global demand growth
- Hard Brexit: UK leaves the EU with no deal in place
- US administration raises tariffs on European car imports
- Tight labour markets limit production growth
- Political and financial instability lead to an Italian banking crisis

Real GDP growth

(% change, year on year)

Source: The Economist Intelligence Unit.
Latin America: slow and steady growth

Continued recovery expected, but with many uncertainties

- Steady growth in Brazil and Mexico will buoy the regional aggregate
- AMLO and Mr Bolsonaro may prove unpredictable in office
- Elections ahead in Panama, Guatemala, Argentina, Uruguay and Bolivia
- Venezuela and Argentina will remain economic trouble spots

Source: The Economist Intelligence Unit.
Middle East and Africa: political risks abound

Less supportive commodity prices and numerous risk factors

- Subdued growth prospects in ME, and coming mainly from the non-oil sector
- A cauldron of risks: GCC crisis, Yemeni civil war, US JCPOA and troop withdrawals
- Policy mismanagement and less supportive commodity prices will hit Sub-Saharan Africa
- But there will be bright spots: Ethiopia, Kenya, Cote d’Ivoire

Source: The Economist Intelligence Unit.
Exchange rates and commodities
US dollar to weaken by 2020

But emerging market currencies will face cross-currents

<table>
<thead>
<tr>
<th>Currency</th>
<th>End-2018</th>
<th>End-2019</th>
<th>End-2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD/EUR</td>
<td>1.15</td>
<td>1.21</td>
<td>1.22</td>
</tr>
<tr>
<td>EUR/USD</td>
<td>0.87</td>
<td>0.83</td>
<td>0.82</td>
</tr>
<tr>
<td>JPY/USD</td>
<td>109.7</td>
<td>111.5</td>
<td>107.9</td>
</tr>
<tr>
<td>RMB/USD</td>
<td>6.85</td>
<td>7.11</td>
<td>6.69</td>
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Source: The Economist Intelligence Unit.
Not all EM have benefited from a more dovish Fed

*China trade deal hopes have also played a role*

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*Source: Haver Analytics; The Economist Intelligence Unit.*
Little upside for commodity prices

But a crash is unlikely in 2019-20

Source: The Economist Intelligence Unit.
US political outlook: The 2020 election
The 2020 election is Democrats’ to lose

The EIU does not expect Mr Trump to secure re-election in 2020

- The numbers don’t add up: Mr Trump’s core support base is loyal, but at around 40%, too small to ensure him victory
- Mr Trump’s divisive governing style has alienated many moderate voters, as well a some establishment Republicans
- Mr Trump hasn’t perceived the warning signs in the 2018 mid-term elections or the dispute over border security
- The political (Mueller investigation) and economic (2019-20 slowdown) context will be less favourable to Mr Trump than it was in 2016
- Early polling shows that majority of Americans are tired of growing polarisation, creating an opportunity for Democrats (if they can seize it)
2020 election outlook

The numbers don’t add up for Mr Trump

Source: Gallup.
Policy outlook for 2021-24
The end of US isolationism?

- More questions than answers at the moment, as the Democratic nominee will be unknown for some time

- But some key assumptions are possible:
  - The US-China rivalry is just heating up, but the tactics (ie, tariffs) will change under a Democratic administration
  - Expect a revival of US-EU relations and an end to US isolationism (economic and diplomatic)
  - An attempt to restore the individual mandate necessary to fund Obamacare is likely (but will face Congressional opposition)
  - Regardless of who wins, any administration post-Trump would likely encourage renewed confidence in US institutions

Source: The Guardian (graphic).
Thank you
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