

Unbalanced Global Growth*

C.P. Chandrasekhar and Jayati Ghosh

It is only too obvious that global capitalism is stagnant and relatively unstable. But nonetheless there is much hype currently being created around the recent “recovery” in some major advanced economies. In some cases, the desperation to suggest that economic activity is picking up has even relied on the fact that some previous projections are being slightly revised upwards.

Consider, for example, the latest World Economic Outlook of the IMF (October 2017): “The pickup in growth projected in the April 2017 World Economic Outlook (WEO) is strengthening. The global growth forecast for 2017 and 2018—3.6 percent and 3.7 percent, respectively—is 0.1 percentage point higher in both years than in the April and July forecasts. Notable pickups in investment, trade, and industrial production, coupled with strengthening business and consumer confidence, are supporting the recovery.”

It may seem a bit weird to celebrate a global rate of growth of output of 3.6 per cent when that is exactly the same as the rate achieved in 2014, when the IMF itself was so concerned about the secular stagnation that its Managing Director Christine Lagarde described as “the new normal”. But perhaps we are simply supposed to be relieved that this new normal persists and has not yet dissolved further or erupted into a crisis.

Of course, looking only at GDP growth is always problematic, and there are very good reasons to argue that this reliance on GDP estimates puts both assessments of material reality and economic policy making on the wrong footing, since it ignores or mis-specifies so many significant aspects of human progress and social conditions. However, expansion of economic activity – or accumulation – is the essence of capitalism, and since capitalism is currently the only game in town, it obviously has to be evaluated also in terms of its ability to deliver on this most basic of all its aims.

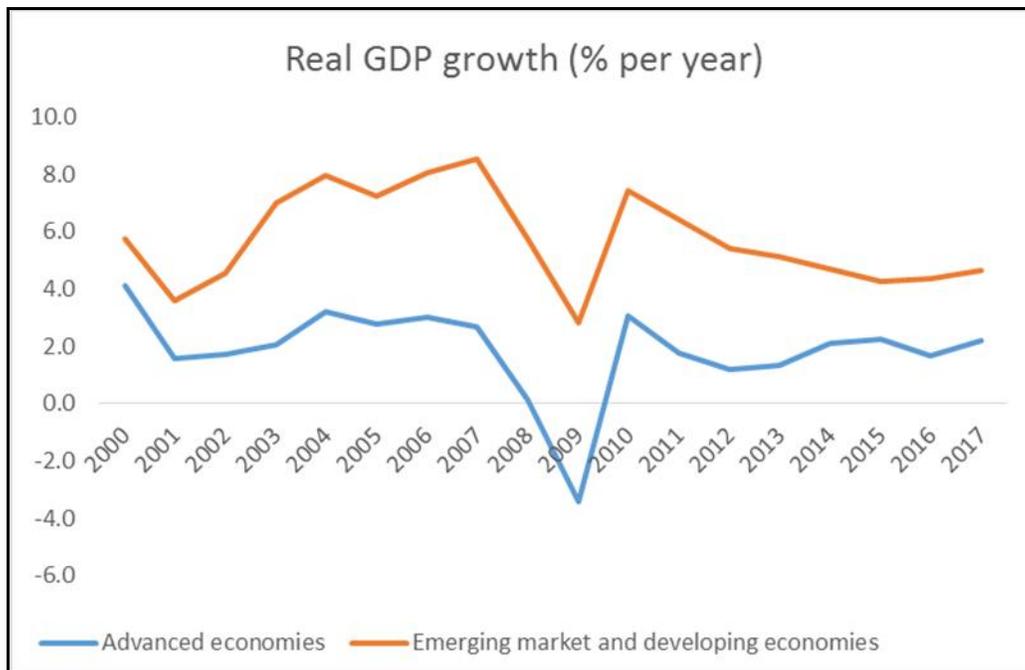
Seen from that perspective, there is no question that global capitalism is sinking deeper into a morass created by its own contradictions: significant increases in inequality that reduce potential demand for production; massive increases in indebtedness that result in less impact on economic activity; the inability of historically unprecedented infusions of liquidity through very loose monetary policy to make much of a dent on growth. It appears, therefore, that the so-called recovery after the Great Recession has not really generated anything like stable conditions for global economic expansion.

Meanwhile, the shifts in the geographical spread of economic activity are important to understand the nature of the global economy today and the prospects for the immediate future.

The first important point to note is that the period during and since the Global Crisis has comprehensively blown the myth of “decoupling” of developing countries’ growth from that of advanced economies. As Chart 1 indicates, there was a brief period between 2002 and 2007 when the aggregate growth of emerging and developing economies accelerated while that of advanced economies stagnated at a slower rate. But the crisis led to a sharp decline for both, and thereafter the changes

have moved in tandem, although the aggregate rate for the developing world remains faster.

Chart 1. “Decoupling” was and remains a myth.



Source: Data for all charts taken from IMF World Economic Outlook database, October 2017.

Because of this faster rate of growth, the share of developing countries in global output increased rapidly from 20.3 per cent in 2003 to 31.3 per cent in 2008 (Chart 2). But thereafter the increase in its share was much slower, and indeed since 2013 it has stagnated at just under 40 per cent.

However, this is just the share of emerging and developing economies in overall output – but in fact the role of the developing world in supporting increases in global activity has become much more significant after the global crisis. Chart 3 shows that early two-thirds of all global growth from 2009 onwards came from the developing world, a near-doubling from its significance in the pre-crisis period 2000-2008.

Chart 2. Developing countries' share of global GDP, increased, then stagnated after the global crisis

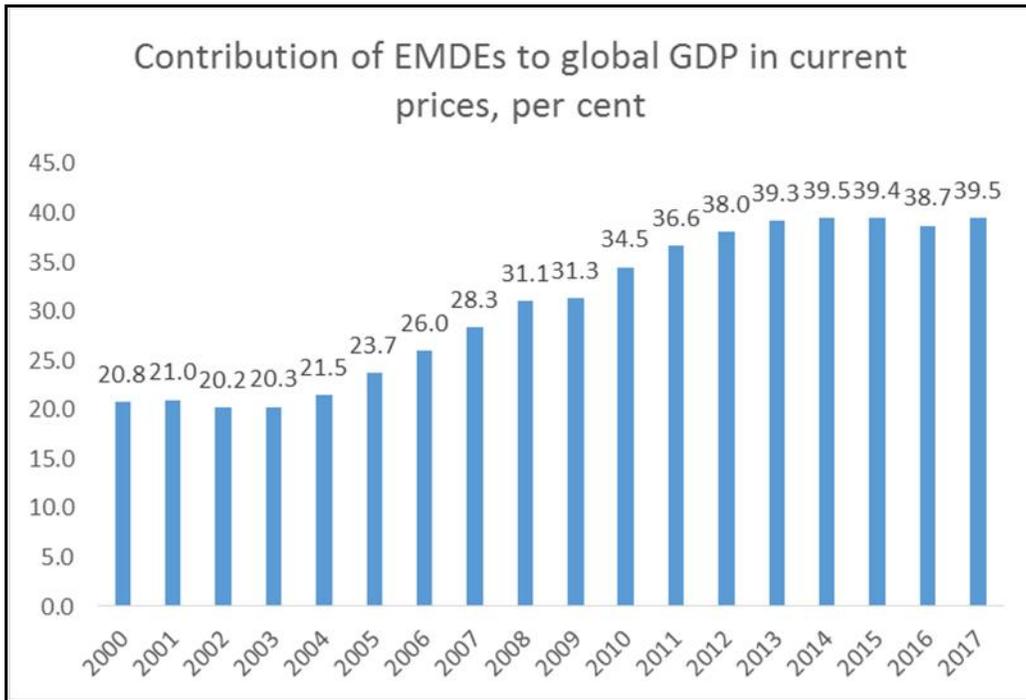
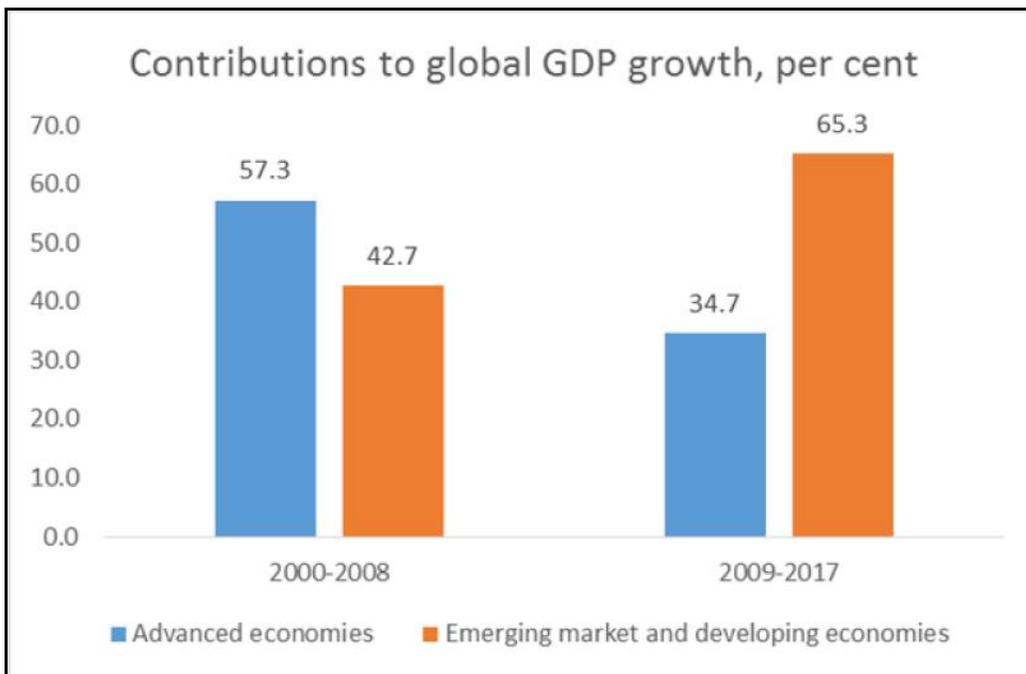


Chart 3. But developing countries still accounted for nearly two-thirds of global income growth since 2009

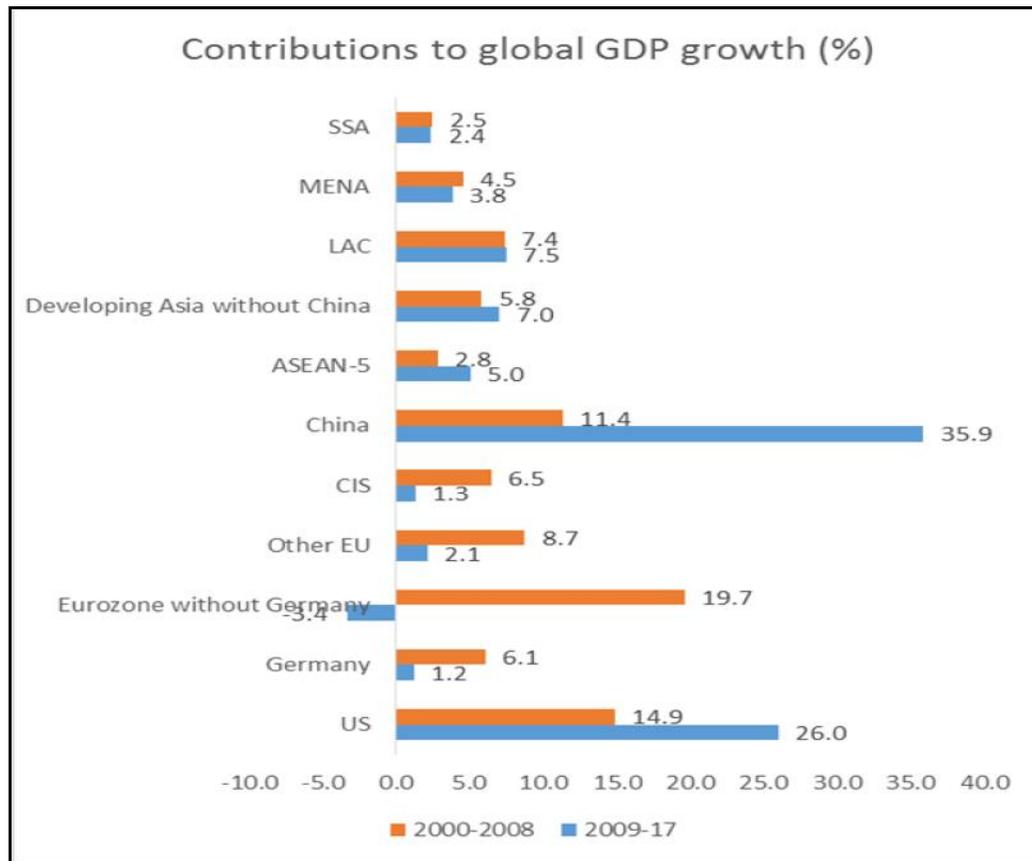


However, even these changes were not evenly spread within developed and developing worlds. From Chart 4, which looks specifically at some regions, it is evident that there has been a reduction in the geographical spread of global economic growth and concentration of dynamism, such as it is, in just a few countries. In the period leading up to the global crisis, it is well known that the debt-based expansion of the US economy was the prime driver of global growth, but even so the expansion was quite widely spread because of the multiplier effects of that expansion.

Since then, the picture has altered greatly. The most significant contributor to global economic expansion in the period 2009-17 was China, which single-handedly accounted for 36 per cent of the total increase in world output. This was a remarkable increase also from its earlier share of 11 per cent, or just above one-tenth.

Within the developed world, the big increase in contribution was from the US, which accounted for 26 per cent, compared to 15 per cent in the previous period. The significant decline was in the role of Europe, which had a net negative impact. Germany alone contributed a much diminished share to the overall increase, but the rest of the Eurozone actually involved a decline of as much as 3.4 per cent of the net change and the rest of the European Union showed a much smaller share as well. Among developing countries, most regions showed broadly similar shares as in the previous period, but in any case were not large enough to make much difference in the aggregate outcome.

Chart 4. Recent global growth was largely due to China and the US



This has two important implications. First, even this spluttering, weak global recovery has been excessively based on just two economies – China and the US – which together explain as much as 62 per cent of total global economic growth since 2009. Second, the inability of these two economies to then become significant drivers of economic expansion in the rest of the world (the role the US played in the previous period) is clearly a cause for concern.

The second question deserves further exploration, especially in terms of future potential, but for now it suggests that there is little justification for the optimism on display in the IMF and elsewhere.

*** This article was originally published in the Business Line on November 6, 2017.**