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Assessment of tomorrow

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The Big Three have a problem, and each of them is seeking their own solution

There are two more weeks until the start of this year's World Economic Forum in Davos, where, as usual, the IMF will present the latest forecast on global growth. But it has already been established that things are not going well. IMF chief Kristalina Georgieva told CBS on Sunday that this year will be "tougher than the year we leave behind". The reason is that "the three big economies - the US, EU, and China - are all slowing down simultaneously”.

The world economy has an extremely difficult year ahead of it, because its three biggest drivers, the US, China and the EU, which make up a third of the global market, have been recording a simultaneous weakening of their economies. Back in October, the IMF lowered its forecast for global growth in 2023, taking into account three main factors: the consequences of the war in Ukraine, inflationary pressures, and the decisions of central banks, such as the US Federal Reserve, to raise interest rates in response to those pressures. “We expect one third of the world economy to be in recession”, Georgieva said, adding that even for countries that are not in recession: “It would feel like recession for hundreds of millions of people”.

Everyone has their own reasons for decline

China has a poor forecast for next year and is unlikely to return in the short term to its former high growth rates, such as 8.4% in 2021. The economy slowdown was the main reason for the Chinese leadership to take drastic measures in the last two months of 2022, and principally to ease the hard lockdown measures as part of its zero-COVID policy. This prolonged isolation has caused a decline in economic activity, sparked internal turbulence in China, and even mass civil protests, for the first time in three decades.

And more importantly for its economy, China reduced growth and slowed investment. “For the first time in 40 years China’s growth in 2022 is likely to be at or below global growth”, said Georgieva. This is an extremely bad position for Xi Jinping’s third term at the head of China. That is why the decisions made immediately after the 20th National Congress of the Chinese Communist Party have aimed to extinguish the fire, but more time is required for its effects to be visible.

This has been especially true for the COVID situation in China, unpredictable after the easing of the lockdown measures, which will directly reflect on its economic potential. With regard to the European Union, its member states’ economies have suffered considerably from the negative effects of Russian aggression in Ukraine, which is particularly reflected in the rise in food and energy prices. The European Commission expects prices to reduce during 2023, but inflation will still be high: around 7% in the EU or 6% in the Eurozone, and it expects a more significant reduction in 2024, which could be 3%, or 2.6% in the Eurozone. The least bleak picture in the circle of the Big Three is the US economy, and the executive director of the IMF assumes it will avoid recession.

The "US is most resilient”, Georgieva said, and it "may avoid recession. We see the labour market remaining quite strong”. At the end of 2022, inflation in the US declined, but the fact remains that despite this, interest rates continue to be high, almost three times higher than the projected 2%. Georgieva, however, does not see this as a problem as long as it strengthens the labour market.

Everyone is seeking their own escape route

At the beginning of this “bad year”, none of the three largest global economic entities have shown any intention to tackle these bad forecasts by seeking a solution cooperatively. Everyone has been searching for their own way out of trouble. The US will continue to keep employment at the centre of its economic policy, which was demonstrated last December when the unemployment rate of 3.7% was the closest to the historic low of the 1960s.

The Federal Reserve will also adopt this policy through its anticipated increase in interest rates. Europe is also seeking a way to deal with high inflation and prices on its own, announcing new subsidies to stimulate its own industry, in response to a similar US programme contained in the Inflation Reduction Act.

The EU will seek solutions in strengthening agreements with markets beyond the US and China, primarily in Latin America and Asia, where it sees the potential to reduce the effects of the blows it will suffer from its two biggest partners, in addition to those from its competitors. Through centralised decision-making, China has sought a solution to increase growth and return to its pre-COVID-19 pandemic and increase its export potential, as one of the foundations of its economy.

At the same time, it faces a series of structural internal problems, not all of which are of an economic nature. The recent mass protests after the long-term lockdown measures forced the government to give in. It opened up a completely new perspective for China’s citizens, and could be repeated in similar circumstances. Since the government in Beijing does not want to allow this, it will seek a way to prevent such a situation, because it has no solution. The rapid recovery of its economy remains its top priority.