

MBC NOTES

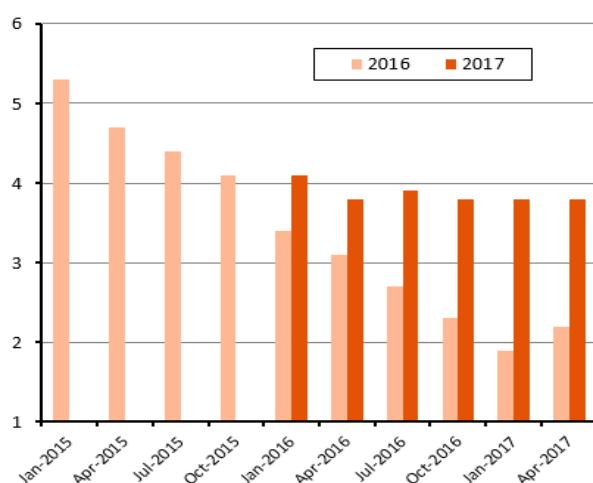
“AN UNCERTAIN WORLD: *What will happen to the global economy, trade and investment?*”

Highlights from the talk and presentation of Mr. Mark Thirlwell, Chief Economist of Australian Trade and Investment Commission, at the MBC CONVERSATIONS session, 09 May 2017 in Makati City

- Since the last part of last year and in the first few months of this year, world trade (volume of goods and services) looks good as it has been growing 2-3% per annum. In the short term it looks better than it has been for a while.

Forecasts for world trade growth: 2016 vs 2017

Per cent change over previous year, volume of goods and services



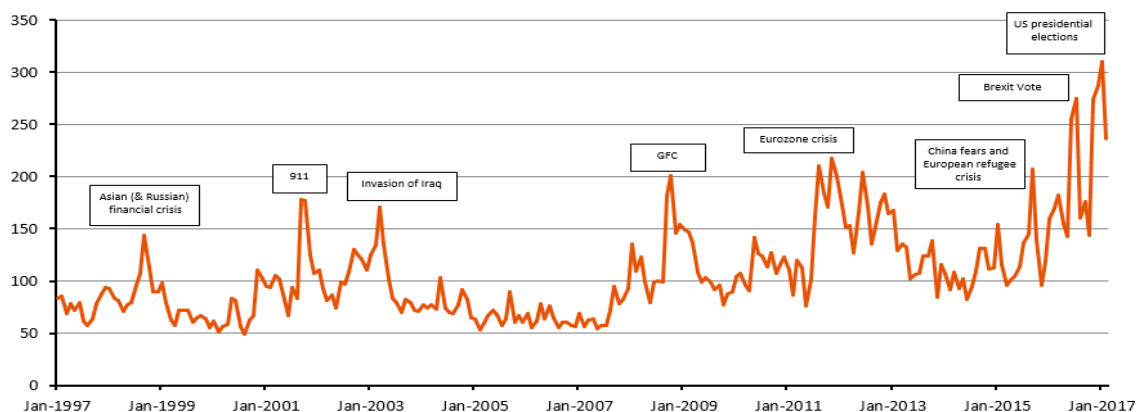
Source: IMF World Economic Outlook various issues

- In 2016, the IMF forecasts for global trade growth has been decreasing (forecast cuts after forecast cuts); however, since the start of this year, IMF has adjusted their global trade growth forecasts to a much more positive light (*as reflected in the dark orange bars in the graph*)

- Against a global backdrop, we face an uncertain world, more uncertain than usual. Over the past year, we had a series of political shocks. Global politics dominated global economy. The first shock was the BREXIT. The second and even bigger shock was the result of US national elections. As a result of those shocks, **there is a higher level of uncertainty for policies** – a level of uncertainty we have not seen in the past two decades

Global Economic Policy Uncertainty index

Index, higher reading indicates higher level of uncertainty, PPP-adjusted GDP

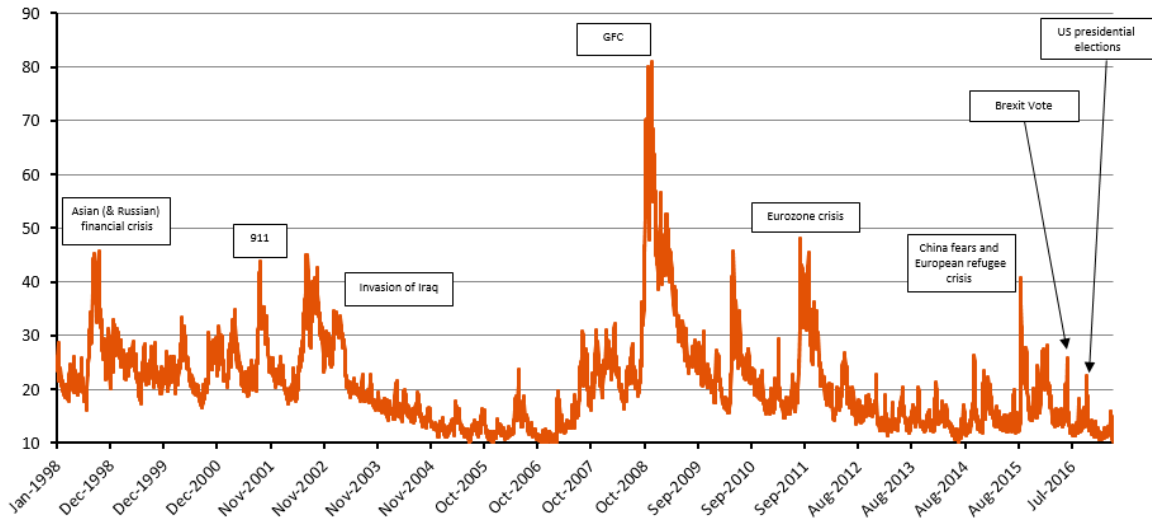


Source: "An Index of Global Economic Policy Uncertainty" by Steven J. Davis at www.PolicyUncertainty.com.

- On the other hand, **financial markets do not seem to be too worried at all**. The CBOE S&P 500 volatility index is currently very low. The world’s largest financial markets seem to say “we might not know (what’s going to happen) but we don’t really care.”

The 'Fear Index': CBOE S&P500 volatility index (VIX)

Index, higher reading indicates higher level of investor uncertainty / 'fear'



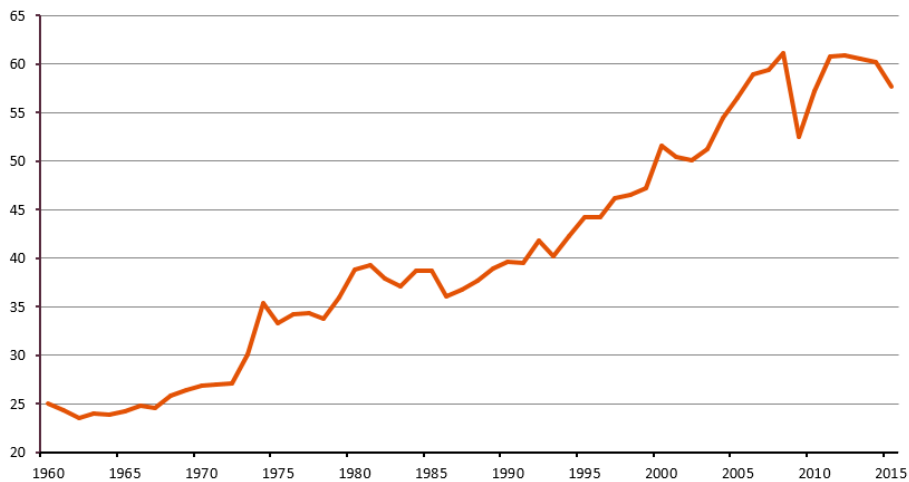
Source: Thomson Reuters DataStream. The VIX index is a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. VIX values greater than 30 are generally associated with a large amount of volatility and taken as an indicator of investor fear or uncertainty, while values below 20 indicate a degree of market complacency.

- Have we reached the peak of trading/globalization? Through the 1980s, 1990s up to 2008, we were in a period of steady rise of globalization (*as shown in the chart*). Since 2008, the line have gone sideways – and the pessimistic view of this is because we have peaked out on globalization after this.

HAVE WE FINALLY REACHED 'PEAK TRADE'?

Ratio of World trade to World GDP

Per cent



Source: World Bank Database.

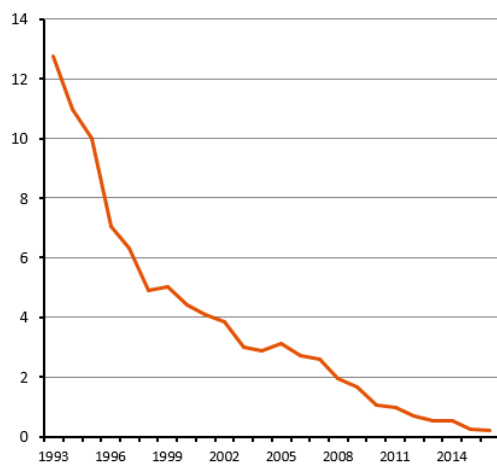
- One thesis supporting this is called “Premature Deindustrialization,” which means that many (if not most) developing nations are becoming service economies without having had a proper

experience of industrialization. The traditional development story, as with the US and Japan experience, is that they grew their manufacturing and industrial sector for a long time, and from then they shifted into becoming a services economy. But what the *chart on the left side* is showing is that, increasingly in today's world, the share of manufacturing in total employment is peaking out at very low levels of wealth.

- Even global value chains participation shows signs of peaking. During globalization period, tariff rates have been reduced and currently have flat-lined. But non-trade barriers have gone up. We are liberalizing and simultaneously restricting trade. ASEAN fits this pattern where, over the years, intra-regional tariff rates have gone down or have been removed, but a number of non-tariff measures have come into force.

ASEAN: Average intra-regional tariff rate

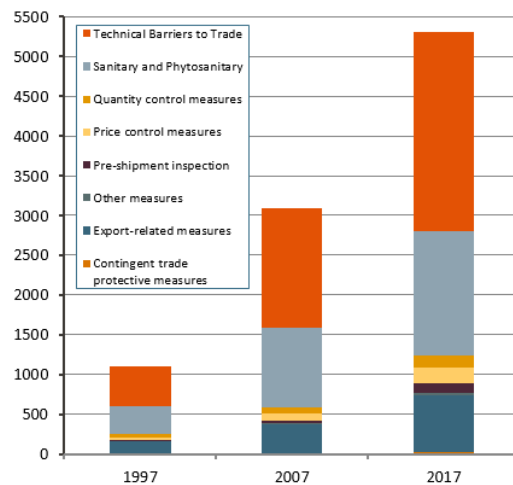
Per cent, weighted mean



Source: ASEAN Secretariat and Oxford Economics. ASEAN-6 until 1995, ASEAN-10 from 1996.

ASEAN: Non-tariff measures in force

Total number of measures

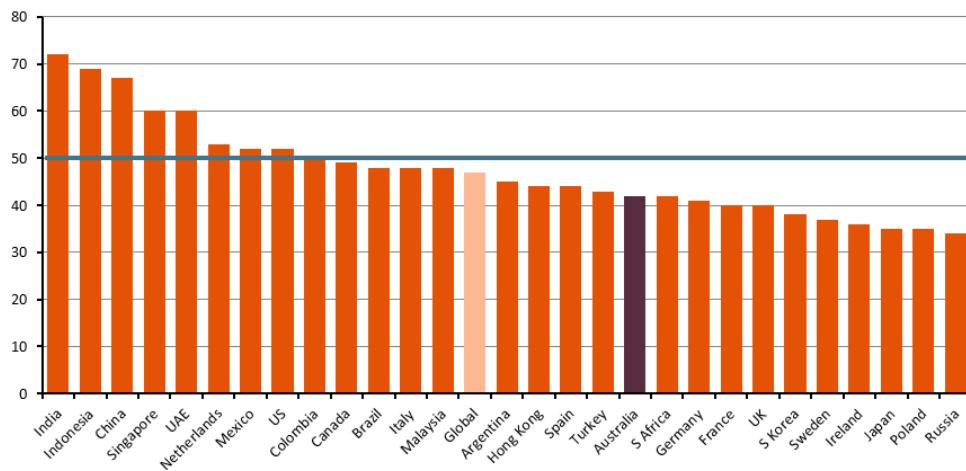


Source: UNCTAD and Oxford Economics.

- We are heading into a new global trade regime, and we are seeing the rise of protectionism. In the U.S., the first trade policy act of President Trump is scrap US participation in the Trans-Pacific Partnership. This is a reflection of what the voters want. In the 2016 US elections, 41% of the voters say free trade agreements have been a good thing for the US, while 48% say it was a bad thing. Even the breakdown of Trump voters show that 72% see FTAs as a bad thing, while 21% see it positively. For Clinton voters, 29% view FTAs negatively, while 58% say it is a good for the country.
- Another trend we are seeing is the **erosion of society's trust in key institutions**. Majority of the countries have a less than 50% trust rating in their institutions, as revealed by the Edelman Trust Barometer 2017. These institutions comprise of government, business, media, and NGOs.

Average trust in institutions in 2017 by country

Per cent

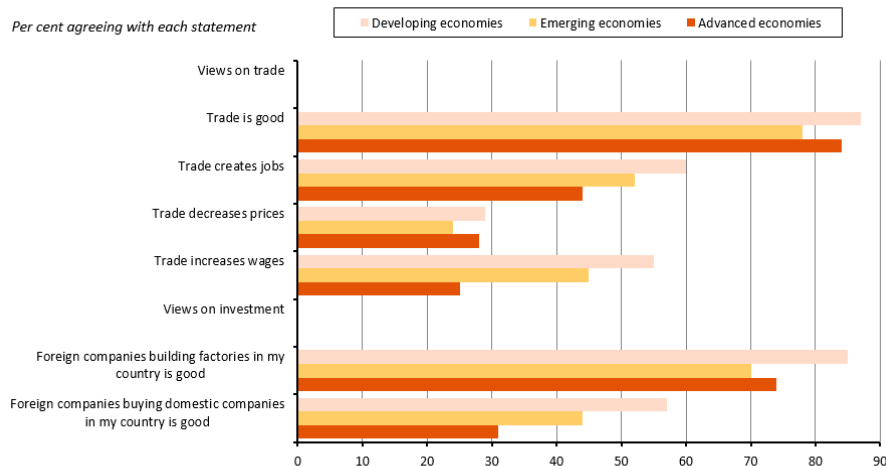


Source: Edelman Trust Barometer 2017. 'Institutions' comprise government, business, media and NGOs.

- So who still likes globalization? The answer is: Poorer countries. The *data below* shows global attitudes towards trade and investment per type of economy. It shows developing economies having a more positive view about the impacts of trade (i.e. to jobs, to prices, to wage levels).

Global attitudes to trade and investment

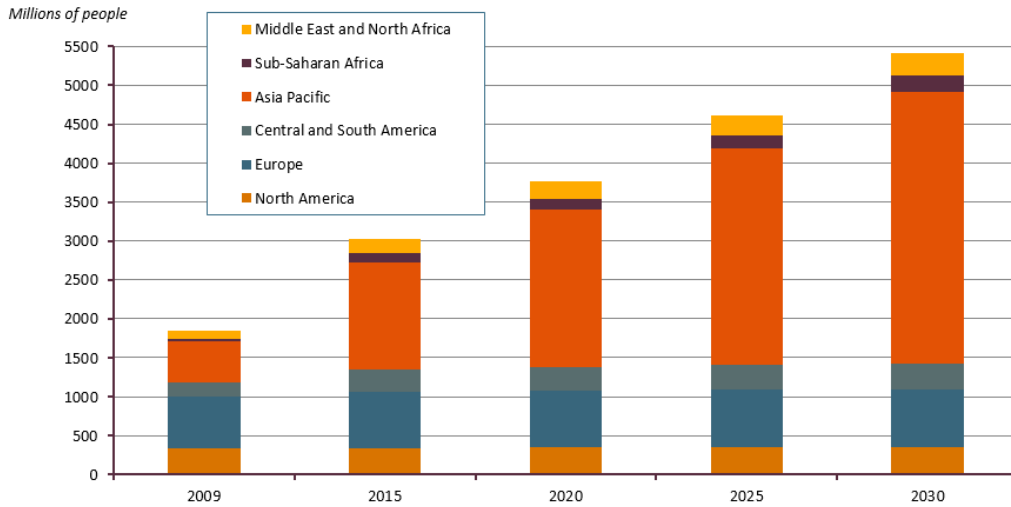
Per cent agreeing with each statement



Source: Pew Global Attitudes Survey Spring 2014. Results are for median response by country categorisation.

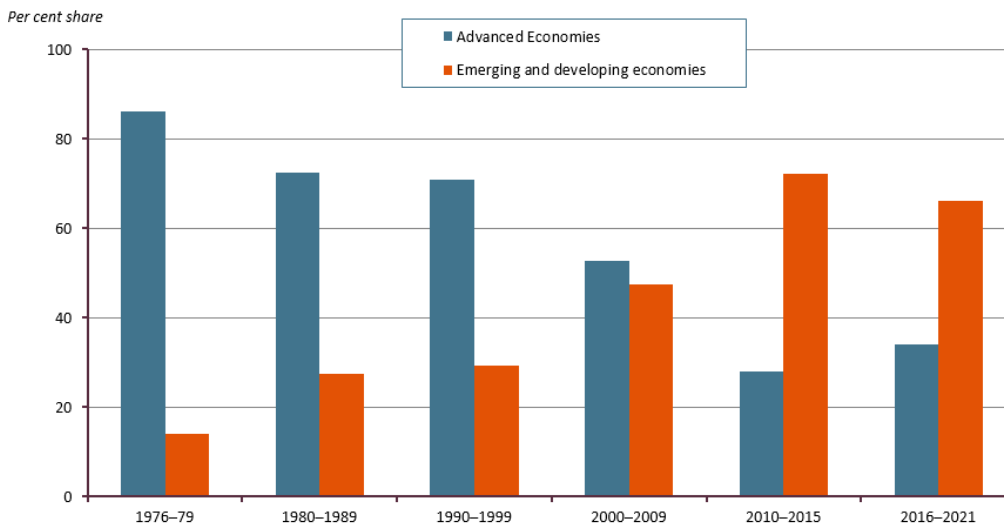
- The number of geo-political conflicts are also on a rise, namely: internal armed conflicts, threat of nuclear war especially with North Korea, and growing maritime disputes. The less-friendly global environment also impacts global trade trend.
- On the other hand, we are experiencing **rapid innovation with the accelerated growth of technology but we see disappointing labor productivity growth**. The World Bank Development Report 2016 notes the latest labor productivity growth has dropped to only 1%, from an average of 2% in the 1990s. This would have an impact on people's quality of life.
- There is an emergence of growing middle class around the world, most especially in the Asia-Pacific region which shows a dramatic increase of people in the middle class. This group drives consumption which *the second graph* supports showing that global consumption is currently being driven by emerging and development countries.

Estimated size of global middle class



Source: For 2015 – 2030, data are from Homi Kharas, The unprecedented expansion of the global middle class. Global economy and development working paper 11. Brookings. February 2017. Figures for 2009 are from Homi Kharas, The emerging middle class in developing countries, OECD January 2010

Contribution to global consumption



Source: IMF World Economic Outlook April 2017. Weighted average based on market exchange rates.

In conclusion

- The outlook for global growths is modestly better and that supports stronger forecast trade growth. The IMF's forecast for World Real GDP growth from 2017 to 2020 hovers close to 4% growth per annum, while forecasted growth in world trade volumes (goods and services) for the same years is a little over 3%.



About the Resource Speaker

Mr. Mark Thirlwell is the Chief Economist of the Australian Government's Australian Trade and Investment Commission (Austrade). Mark has been serving that role in Austrade since 2013 and has been leading its analytical work on international trade and investment trends. Prior to joining Austrade, Mark had been tracking global economic trends at the Bank of England and JP Morgan and more recently was Senior Economist at Australia's Export Finance and Insurance Corporation (EFIC) and the inaugural Director of the Lowy Institute's International Economy Program - one of Australia's leading think tanks - and a Fellow at the Institute's G20 Studies Centre.